# FINANCIAL TIMES

Algeria

Islamists balk at Zeroual's proposals

World Business Newspaper

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training heading

Manager in an Specialists

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**Internet searches** New protocol speeds database access

Technology, Page 9



**UK under Labour** The fiscal cupboard will remain bare



Today's surveys

Ghana Romania

Separate sections

**Airbus** 

# diversify with satellite TV launch

Sumitomo Corporation, the Japanese trading group, is to launch what it says will be the world's first quadrilingual television station. It will broadcast produced entertainment programmes to 10 Asia-Pacific countries from January on Jet TV, a 24hour channel to be based in Singapore. Viewers will be able to choose from Japanese, Thai, Chinese and English by touching a button on a handset. Sumitomo's move into foreign broadcasting is the latest diversification by Japanese trading houses keen to find more profitable ventures. Page 15

Wiretap scandal erupts in France: A new political scandal broke out in France after the defence ministry admitted ordering wiretaps on two senior aides to former defence minister François

Russian bank goes into administration: The Russian central bank took over one of the country's largest banks, provoking fears that the nation's fragile banking sector could be on the verge of a wider crisis. Tveruniversalbank will be under the central bank's administration until September 1, when the authorities will review its position. Page 3

Confrontation in Ulster: Unionist politicians threatened to withdraw from the all-party Ulster peace talks over a stand-off between Protestants and police in Portadown, Northern Ireland. Page 8

Turkish coalition wins confidence vote: Turkey's parliament confirmed Necmettin Erbakan in office as the country's first Islamist prime minister. The coalition of Mr Erbakan's Islamic party. Refah and the centre-right True Path party was approved by 13 votes in the 550-member parliament. One politician who voted against the coalition was punched by a colleague, Page 14

GM appoints distributors in Japan: Saturn, the US carmaker established by General Motors in the 1980s to meet the challenge of low-cost Asian competition, appointed its first six distributors in Japan, Page 14

Delta urges block on BA-American link: Delta Air Lines became the first large US carrier to call for the proposed alliance between British Airways and American Airlines to be vetoed. Page 4; Personal View, Page 12

Call to arrest Karadzie: The US official in charge of overseeing Bosnia's forthcoming elections urged Nato to arrest Bosnian Serb leader Radovan Karadzic and other members of his community who are wanted for war crimes. Page 2

Attack at UK Infants' school: Three children and four adults were injured when a man with an axe or machete burst into an infants' school in Wolverhampton, central England. Police were last night hunting the attacker. The incident came less than four months after the Dunblane tragedy in Scotland in which 16 pupils were killed.

Hered's name found on 2,000-year-old Jug: The remains of a 2,000-year-old clay wine jug inscribed with the name of King Herod have been discovered, Israeli archaeologists said. Herod was king of Judea from 37 BC until his death in 4 BC.

**Tennis:** Fifteen-year-old Martina Hingis, from Switzerland, became the youngest player to win a Wimbledon title when she and Czech-born Helena Sukova beat Meredith McGrath of the US and Latvia's Larissa Neiland in the women's doubles.

Cricket: England were poised for e draw against India after they finished on 550 for 7 at the end of the fourth day of the third Test at Nottingham, giving them a 29-run lead over the visitors.



Aids activists protesting before the opening of the Eleventh International Aids Conference in Vancouver, Canada. They called for the optimism of researchers and drugs companies to be tempered with realism. The conference was told the number of people infected with the AIDS virus worldwide is expected to double by 2000, with a huge increase likely in India. Early use of new Aids drugs urged, Page 4: Editorial Comment, Page 13

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Sumitomo plans to | Efforts to meet Maastricht deficit limit intensified in draft budget

TUESDAY JULY 9 1996

# Bonn plans 2.5% spending cuts

The German federal government plans to cut spending in 1997 for the third year in succession as part of its intensifying efforts to bring the country's public sector deficit below the limit set by the

Maastricht treaty.

The draft budget, to be presented tomorrow to the cabinet hy Mr Theo Waigel, the finance minister, envisages a 2.5 per cent drop in federal spending to DM440.2bn (\$289.6bn) next year from a planned DM451.3bn this year and a decline in Bonn's net borrowing requirement to DM56.5bn from DM59.9bn. Mr Waigel will tell his col-

By Neil Buckley in Brussels, Alison Maitland in London and

The European Union agricul-ture commissioner said yesterday

that he was taking very seri-ously reports that UK beef des-

tined for destruction because of the export ban had circumvented

controls and been found in Italy.

there was no proof of an abuse of

the three-month-old ban, said be was writing to Mr Douglas Hogg,

the UK agriculture minister, ask-

hofer, the German health minis

ter, for more information after

the alarm was raised by the Ger-man ambassador in Rome. Other

EU farm ministers have been

alerted, as well as Ms Anita Gra-

din, the commissioner responsi-

The UK agriculture ministry

said it needed evidence before it

could investigate. "We're not

issuing any export certificates, so

if it were happening it would be illegal," the ministry said. "But we have got no evidence that it is

Any suggestion the UK is being slack in controlling exports could arouse further suspicions in EU

states over its handling of the

beef crisis and delay the start of

the phased lifting of the export

The German health ministry

said it had written to the Euro-

pean Commission last Thursday

asking it to investigate reports that British beef infected with

hovine spongiform encephalo-

ble for combating fraud.

happening.

He is also asking Mr Horst See-

ing him to investigate.

Mr Franz Fischler, emphasis

Michael Lindemann in Bonn

UK to probe

alleged breach

of EU beef ban

in April to cut existing spending plans by DM25bn next year as part of its programme of spend-ing reductions, supply side reforms and welfare restructuring to boost growth and jobs. The cabinet meeting will set the seal on negotiations between the finance ministry and spending ministries on DM7bn of depart-mental cuts left vague in the

leagues that the federal government will fulfil the promise made

April package.

Bonn is aiming to bring Germany's overall deficit down to 2.5 per cent of gross domestic product next year and so below the 3 per cent Maastricht ceiling. But success will depend crucially on

pathy, or mad cow disease, was being smuggled into continental

Europe – in one case disguised as a shipment of potatoes.

had reported that it had "confi-dential information" that infected British beef was being

The Rome report said Belgian police had evidence the export

ban was being circumvented and

that animals which were sup-

posed to be called had found

their way to Italy via Scotland,

Ireland and France with forged

Belgian health certificates. Such

incidents were "not one-off ones".

It added that on June 28 the Italian authorities had held up a

ehipment of potatoes which turned out to be British beaf.

Commission inspectors are due

to visit Britain again on July 22

to monitor other elements of the

UK's BSE control and eradication

programme, after a previous visit

found that controls could be

The Commission's agriculture

spokesman Gerard Kiely said Fis-

chler wrote to British agriculture

gal exports," said a spokesman.

a lot of money through the cull -

one would do it."

improved.

smoggled into Italy.

The German embassy in Rome

whether the federal states or Lander can produce a total of DM25bn of budget cuts through their individual efforts after failing last week to agree a joint

austerity programme.
Yesterday, EU finance ministers meeting in Brussels received an assessment by the EU's monetary committee of each member country's prospects for qualifying next year for monetary union. It warned that Germany, among others, would have to take additional steps to reduce its public debt and deficit.

Details of the 1997 draft federal budget were circulating unoffi-cially in Bonn yesterday. Cuts are envisaged in 18 of 26 individ-

nal spending plans next year, with the ministries of economics, transport, defence and agriculture accounting for DM4bn of the DM7bn of cuts negotiated in

The transport budget is set for a particularly sharp fall to DM45bn in 1997 from a planned DM51bn this year, although investments should be protected because of increases in other revenues including asset sales. Defence, the subject of a well

publicised tussle between Mr Waigel and Mr Volker Rühe, the defence minister, will see its bud-get cut to DM46.5bn next year from the DM48.2bn set aside in recently published plans for this

year. The budget of Mr Günter Rexrodt, the economics minister, who left an intensive care ward yesterday six weeks after contracting malaria, will decline by 8.4 per cent to DM17bn from DM18.6bn planned for this year. The labour and social affairs ministry remains the biggest federal speoder by far next year, although its budget is set in decline to DM122.1hn from o

planned DM124.6bn in 1996. Increased spending will mainly cover the growing costs of the planned move of Germany's oment from Bonn to Ber

> Continued on Page 14 A knife to spending, Page 2

# consortium to become a single company

Airbus Industrie, the four-country European aircraft manofacturing consortium, annunced yesterday that it is to turn itself

into a single company.

The change is aimed of turning Airbus - the world's second higgest aircraft maker - into a low-er-cost, more focused competitor to Boeing of the US, its larger rival, able to take decisions more rapidly and award component contracts to lower cost maoufac-

Airbus said the change would take three years to complete. The decision follows years of debate over whether it should abandon its non-profit status in favour of a conventional corpo-

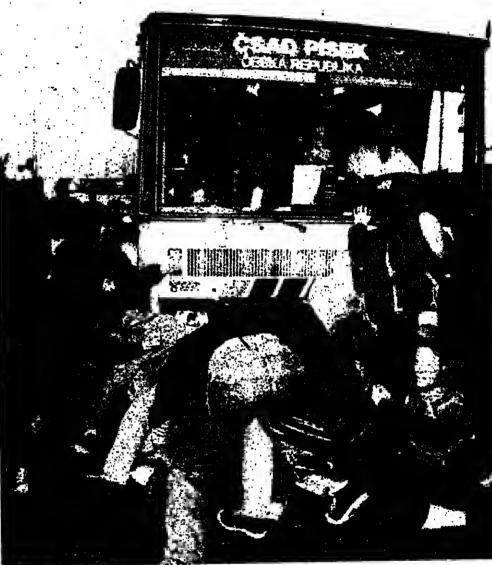
rate structure. Founded in 1970, Airbus is a Groupement d'Intérêt Economique, which means that profits and losses accrue to the four partner companies rather than to the consortium itself. The four companies - Aérospatiale of France, Daimler-Benz Aerospace (Dasa) of Germany, British Aero-space and Casa of Spain - also share manufacturing work in proportion to their holdings. They have been divided over the wisdom of becoming a limited

BAe bas heen a strong snp-porter of the change, supported by Mr Jean Pierson, Airbus's managing director, who argued that the manufacturer had to become a limited company if it was to drive down costs sufficiently to challenge Boeing. Dasa and Aérospatiale were more reluctant, but threw themselves behind the drive for change.

ments also have pressed for change. The German government said earlier this year that it would not fund any future aircraft developments unless Airbus became an integrated company. This would have prevented Airbus from proceeding with plans to build the A3XX, a 550seat "super jumbo" whose devel-opment costs are expected to be over \$8bn.

The supporters of change say Continued on Page 14 Lex, Page 14

attempted to stop a bus at the nuclear power station in the Czech Republic yesterday. About 2,000 people protested



minister Douglas Hogg asking what steps had been taken to pre-vent British beef being exported. "Britain must have effective control measures to prevent illegate of the site of the Temelin Ms Jenny Burt of the UK's International Meat Trade Association, which represents exportagainst completion of the Russian-designed nowe ers, said: "The beef is worth quite The first of two units is more than its current market scheduled to begin operation value - and I can't see why any-

# BSkyB links with Kirch to develop Germany's pay

British Sky Broadcasting and Kirch Gruppe, the German media company, are to set up a joint venture to develop digital pay television in Germany. BSkyB, the UK satellite televi-

sion company owned by Mr Rupert Murdoch, has agreed to take a stake of up to 49 per cent in DF1. Kirch's digital television company which plans to launch an initial 17 channels of digital television in Germany on July 28. BSkyB is expected to invest

£200m (\$312m) in the venture over the next few years and DF1 may move quickly to provide up to 200 television channels to German audiences. Negotiations with Kirch began almost as soon as BSkyB decided that an alliance including

Bertelsmann, the German media group, and Canal Plus, the French pay television company was not performing. BSkyB pulled out of this "grand alliance".

BSkyB has argued that there

should be one "platform" offering digital satellite television services for the German market. It believes the Kirch joint venture now will make it very difficult for other companies to compete.

Together the two companies have 16 eatellite transponders which broadcast the television signal to earth, each of which can be turned into at least 10 television channels.

Mr Gottfried Zmeck, chief executive of DFI, said yesterday that with BSkyB, Kirch had a partner who will enhance the development of our digital platform in Germany with its experience as Europe's most successful pay television operator".

Kirch has significant rights to films throughout the Germanspeaking world and last week the company outhid Europe's public service broadcasters to win the biggest football broadcasting contract. Together with ISL, the Swiss marketing company, Kirch bid SFr2.8bn (\$2.2bn) for tha rights to the 2002 and 2006 World

Cup finals outside the US. Fifa the football body, has emphasised that the games must be shown on free, rather than pay, television.
The main target of the new venture will be the German market, but it is believed the two companies intend to launch digi-tal services elsewhere in Europe.

The most likely target is Italy. BSkyB plans to launch at leas 200 digital channels in the UK in the last quarter of 1997 and last week made clear to set-top decoder manufacturers that it wanted 1m decoders in the shops by September 1997.

The new digital DF1 service will feature an initial 10 film channels and deals are believed to be in place for channels such as MTV, Nickelodeon and Discovery. Yesterday NBC Super Channel and its sister business service CNBC announced that they would be part of the DF1 programme package.

Lex, Page 14; Sumitomo satellita TV station, Page 15

# American News ...... World Trade News

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unlikely in be met, it says.

# EU states censured over Emu progress

By Lionel Barber in Brussels

European Union finance ministers yesterday delivered a blunt warning in 12 member atates, including Britain, France and Germany, to trim their budget deficits in order to stay on course for monetary Union in 1999.

Only Demmark, Ireland and Luxembourg escaped censure at the ministerial meeting in Brussels yesterday, Sweden and Belgium were singled out for praise, however, for having made substantial "statistical" progress since March in bringing their finances under con-

The warnings are part of the EU's "excessive deficit proce-dure" - the annual evaluation of progress toward the Maastricht treaty's deficit and debt criteria which amount, respectively, to 3 per cent and 60 per cent of gross domestic product. The Brussels meeting was the first under the Irish presidency which is pledged to inject fresh momentum into the debate on employment after last month's inconclusive

EU summit in Florence. Mr Ruairi Quinn, the Irish finance minister, announced that ministers had agreed to set up a high-level political group to study the European Commission's request for an extra Eculbn (\$1.25bn) to finance spending on EU transport networks.

The Irish presidency set out an ambitious work programme for the next six months, including stiffening measures to and those outside the euro-

Mr Kenneth Clarke, the UK chancellor, yesterday endorsed a call by the EU monetary committee not in jeopardise Britain's eligibility for a single currency by tax cuts in this year's budget which many Tories believe are essential to prevent a Labour general election victory, write John Kampiner and Lionel Barber. He said he was not prepared to jeopardise his plans in restore order to the public finances after an

nexpected shortfall in this year's revenues. The committee's recommendations call for Britain in end its excessive deficit "as rapidly as possible". The target of 4.5 per cent of gross domestic product recommended for 1995/6 is zone, the German plan for a

tackle fraud against the Union's budget and wrapping up all technical aspects of the transition to the single currency by the end of the year. Issues include the relation-ship between Emu participants

Mr Clarke was "entirely content" with the recommendations. "Tax cuts are a very good thing, but you only get tax cuts when you have got your spending under control, still respect your priority spending commitments, and got your berrowing on a firm downward path."

He will unveil the Treasury's summer forecast today, the first official indication of the

rovernment's economic assumptions since last November's budget. It is expected to revise down the projected pace of growth this year and show a significant upward revision in the level of public sector borrowing.

stability pact in enforce budgetary discipline in the post-Emn world, and the operation of a new model exchange rate

Mr Kenneth Clarke, Britain's chancellor of the exchequer,

said membership of the ERM Mark II would be voluntary. Britain would not face discrin ination if it remained outside. However, he acknowledged

concern in the Bank of

England over reports that

banks based in countries out-

side the single currency zone could become "second class citizens" in dealing in the euro. French and German bankers are understood to be pressing for tighter controls to be imposed on non-Kann demiciled banks seeking access to suro liquidity during trading seems. Mr Clarke said Mr Eddle

George, Bank of England gov-ernor, had raised the matter after a meeting of EU central bankers last week. I would want to see the City of London treated on the same basis as Paris or Frankfurt, he said Separately, Mr Jean Arthuis, the French Chance minister,

said politicians should ba involved in the design of the new euro notes rather than leaving it to central bankers. Mr Quinn agreed.

Emu bible

Setback for Rühe as military spending is cut again

# Kohl intervenes in row over defence budget

By Michael Lindernann in Bonn

An unusually vocal dispute between two senior German ministers about the size of Germany'e defence budget - a disoute which featured a personal intervention by Chancellor Helmut Kohl – was yesterday papered over when it was agreed that the armed forces would get DM46.6bn (\$30.6bn) to spend next year.

The figure represents a com-promise between Mr Theo Waigel, finance minister, and Mr Volker Rühe, defence minister. It has been painstakingly agreed under Mr Kohl's super-vision to help ensure that Germany's budget deficit next year does not exceed 3 per cent of gross domestic product as set ont in the Maastricht

The 1997 budget nonetheless represents a considerable set-back for Mr Ruhe who has seen his budget dwindle significantly in recent years as Germany has been forced to find more savings. He started out with DM48.2bn this year, but that was cut to DM47 Ihn after Mr Waigel introduced a cap on government spending in

Mr Kohl has attempted to console his defence minister by assuring him that his budget will grow gradually in coming years so that by 2000 he would have DM48.5bn to spend. Mr Waigel had wanted the defence budget reduced to DM46bn and raised only alightly to DM46.3bn in 2000.

However, there are likely to be questions over the value of Mr Kohl'e assurances, given that Mr Rühe was told - in writing - after tha general election in 1994 that he would have DM48.5bn in spend every year between 1996 and 1999.

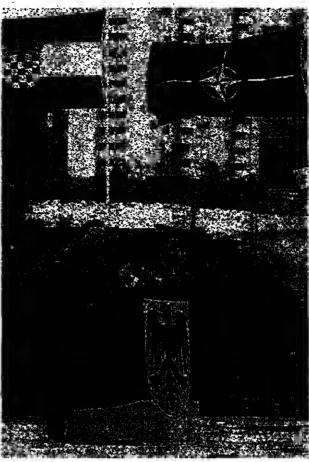
The defence ministry said yesterday a number of Franco-German weapons projects, including the Tiger attack belicopter and the Helios reconnaissance satellite, would have to be reviewed in the light of both countries.

A final decision about the viability of these projects would be made at the next biannual Franco-German summit in the autumn.

In a weekend press report Mr Rühe had said that he regarded the NH90 transport helicopter, which is being developed with France, Italy and the Netherlands, as more important than the Franco-German Tiger. Mr Rühe's real spending

power on new weaponry for the Bundeswehr is also likely to be lower than the headline figure of DM46.6bn because he will have in find DM300m in the 1997 budget to finance German soldiers currently stationed in Croatia.

Mr Kohl had to call Mr Ribe to order last week after the fence ministry leaked a letter Mr Rühe had written in the chancellor warning him that the proposed budget cuts would have a drastic effect on



Volker Rühe addresses German troops in Croatia in February.

# Waigel takes a knife to spending

By Peter Norman in Bonn

The DM440bn (\$290bn) draft federal budget for 1997 that Mr Theo Waigel, the German finance minister, will present to his cabinet colleggues tomorrow envisages cuts in 18 out of 26 individual government spending plans.

It is, therefore, an important part of the government's "programme for more growth and jobs". This was unveiled at tries of economics, agriculture, transthe end of April with the aim of slimming down expenditure by Germany's federal, state and local authorities, as well as by the social security funds that meet the costs of pensions, health care

The entire programme, which

In addition to spending cuts, is intended to make Germany more competitive in giobal markets.

Details provided by government sources in Bonn yesterday showed that Mr Waigel has succeeded in extracting the DM7bn of savings from his departmental colleagues which were envisaged in the programme in April. Some DM4bn alone will come from the minis-

port and defence. These departmental cuts will contribute to DM25bn of federal savings next year, once they have been added to DM9.5bn of savings to come from the federal labour office, a DM2.5bn cut in federal payments to the state pension

rise, and a DM3bn saving from a to increased revenues in this area. planned one year postponement of an

increase in children's allowances. Mr Waigel will tell the cabinet that the savings will come mainly from running costs, although federal investments are set to drop next year to DM60.5bn from an expected DM66.3bn this year and then hover around DM60bn in the period from 1998 to 2000 inclusive. The minister is expected to argue that the share of investment in overall spending next year will be in line with the average for the period

hetween 1990 and 1995. Investment in transport infrastruc-

costs that will result from staff cuts and . a 9.9 per cent drop in the federal trans-next year's modest civil service pay port ministry budget to DM45bn thanks

Mr Waigel will also promise to keep a high level of transfers to eastern Ger many to finance infrastructure investment. However, total federal transfers to the new Lander (federal states) will drop by about DM9bn to DM80bn. tributions in social payments such as unemployment pay.

The budget will set an important and overdue signal by cutting federal subsidies by 5 per cent next year, with aid for Germany's coal industry set to fall by DM500m to DM8.1bn. Help for farm includes tax changes and deregulation funds, DM3bn of savings on personnel ture will be largely maintained despite ers in coastal regions will be trimmed.

Leader of the CGIL marks out territory as the critical conscience of the left

# Italian unions fire warning shot on wages

By Robert Graham in Rome

Italy's powerful trade union movement is keeping its distance from the new centre-left government and has warned that it will take a tough line on

This stance was spelled out at last week's congress in Rimini of the CGIL, the largest of the three main union confederations. The congress was the first presided over by Mr Sergio Cofferati, general secretary, who is seen as close to the Party of the Democratic Left (PDS), the main partner in the Olive Tree alliance which won the April general elections.

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At the congress - from which he emerged with his authority considerably strengthened – Mr Cofferati confirmed he now sees his role as "the critical conscience" of the left in government. The unions do not wish to make the same mistake as those in Spain who they believe identi-

fied too closely with the Social-

ist government of Mr Felipe

González, thus limiting their freedom of action. In both his opening and closing addresses, Mr Cofferati made clear he would not accept the government's 2.5 per cent inflation target for 1997 as a benchmark for current wage negotiations or a broader incomes policy. This was despite a personal appearance by Mr Romano Prodi, the prime minister, at the con-

Mr Cofferati was under pressure to adopt a tough stance partly because he faced a revolt by a hard core of the left inside the CGIL who support the Reconstructed Commu party. He was re-elected by 171 votes with seven abstentions and one against.

Mr Cofferati also faced the

need to co-ordinate a congress position on the large number of sensitive wage contracts on which talks are under way or about to start.
Grass-roots CGIL members

have been pressing for pay rises to recover lost purchasing power. The historic 1933 agreement between government unions and employers ending wage indexation pegged wage rises to productivity increases and to projected (not actual) inflation. Wages have grown on average over the past three

The 1993 agreement is due

actual inflation.

for revision this year before another set of two-year contracts. Engineering workers, who have traditionally set the benchmark, are demanding at least a 3 per cent rise plus recovery of part of what they have lost in real terms. They argue that businesses have been able to make substantial profits since 1993 and have en allowed to raise production prices higher than neces-sary (and against the spirit of the 1993 agreement).

ference with the government is over privatisation proceeds. The CGIL wants to see a size-able part of income from state asset sales earmarked for job creation. The Treasury has

years at 1 per cent below into a fund to amortise the national debt stock. The CGIL says it will press the government to come up with over L20,000bn (\$13bn) to combat unemployment in the south, in part directed towards infrastructure projects.

Mr Cofferati, dubbed the sphynx because of his enig-matic smile, has proved an astute political operator while running the CGIL.

He helped to overturn the

pension reform plans of Mr Silvio Beriusconi's government in November 1994 and exercised an effective veto on the eco-Another area of potential dif-erence with the government is over privatisation proceeds. ing point for those on the left who want to moderate the Prodi administration's plans to liberalise the economy and

#### guides German bankers By Andrew Fisher in Frankfurt

Help is at hand for those German bankers still wondering how in make the ardnous preparations for European monetary union. It comes in a 600-page book - as thick as the Frankfurt telephone directory - containing an aweson mass of detail about getting ready for the euro.

Drawn up by the German banking association, which represents 300 private acctor banks, the book is intended to give the country's commercial banks a competitive lead over the rest of Kurope. It demonstrates just how seriously German banks are taking Emil; which is due in start on Janu-

aty 1, 1999. No other European Union country has come up with such a comprehensive tome, said Mr Wolfgang Arnold, dep-uty general manager of the association. But he thought the French banking commuuity was also fairly well advanced in preparing for

"Germany will be ready," asserted Mr Hartmut Knüppel, a director of the association. "I can't say how the other comtries will do. We want in help make our private banks stron! ger in this time of increasing

mpetition." The book, Guidelines for the Currency Changeover in Banks, has taken 18 months to prepare. It sets out the steps banks need to take in such areas as domestic and foreign tions, accounting, retail business, money market, foreign exchange and securities settle ments and electronic hanking Each chapter containe a detailed checklist which banks can use for their own preparations which will vary according to their size and type of business. They will have to be ready for dealings in euros-from the start of Emu, although national currencies

mid-2002. The book will be translated into English for foreign sub-sidiaries. Banking associations in other countries have also taken an interest. For association members, the loose-leaf book will cost nearly DM500 (\$330). Outsiders will have to pay almost DM1.000.

will circulate in parallel until

While the big banks, led by Deutsche Bank, Dresdner Bank and Commerzbank, are well advanced in their Emu preparations, attention has turned to the problems of smaller banks. To prepare for Emu, banks will have to devote up to a quarter of their data processing capacity to the task, said Mr Hans-Ulrich Gutschmidt, another

association director. Thus, they will have to start making the necessary moves now. "They can only do it with this book," he added. "Or they will need considerably longer than two and a half years."

#### been channelling this income impose budgetary austerity. González acts to quell party rumblings

By Tom Burns in Madrid

Mr Felipe González, Spain's former prime minister, was yesterday forced to act to quell a revolt within the Socialist party, of which he has been undisputed leader for more than 20 years.

The Socialists' narrow defeat in the March 3 general election after a long stretch in power has prompted unprecedented calls for Mr González in step Senior party officials yesterday told a

meeting in Madrid of the party's executive committee that criticism of the leader, let alone talk of replacing him, was not on the agenda.

The message followed a weekend ciroppose Mr José María Aznar's centre-

right government. Mr González's pre-emptive action underlines how eeriously he is taking the critical voices beginning to be heard in senior ranks. His supporters are surprised at how quickly the gloves have come off among the normally well-disci-

plined Socialists. After the general election, the party looked on its leader as its saviour. Dur- held every three in four years and is ing the campaign a double-digit lead by Mr Aznar's Popular party had almost disappeared and Mr González, prime minister since 1982, was credited with having closed the gap.

But, since then, Mr Aznar, who has cular from officials to all the party's formed a parliamentary majority with regional associations warning against nationalist parties, has been looking an internal debate and urging Socialists increasingly in charge. The Socialists, party and the call was quickly taken up opposition.

to concentrate on remaining united to meanwhile, have looked more and more less prominent Socialists around the uncomfortable in the face of a series of country. Morale has been badly shaken sleaze allegations deting from their

years in power.

The first broadside against Mr González was delivered last week by Mr Juan Carlos Ibarra, outspoken head of the regional government in Extremadura, a backward area of west Spain and a Socialist stronghold.

He wanted a party congress (which is not due before next March at the earliest) to be called as soon as possible in order to elect a new executive com-

Mr José Borrell, a member of several

kickbacks received during the 1980s by local Socialist leaders in Andalucia, Mr González's home region, and by fresh scandals involving Swiss bank accounts held by senior Socialists in Navarre, in the north. It was there that Mr Gabriel Urral-

burn, former head of the local Socialistrun government, was imprisoned last year in connection with corruption. Mr González's executive last week suspended those accused of bribery from party membership pending investigation into the charges. There is growof Mr González's governments and a ing concern among senior Socialists, man often tipped as a future party however, that more sleaze allegations leader, urged the "regeneration" of the will surface now that the party is in EUROPEAN BEWS DIGEST

# Detention of Karadzic urged

Bonda's forthcoming elections, yesterday urged Nato in arrest Michael Range of his Community who are wanted for war crimes. Mr Frowick's call was a sign of the mounting dismay in Washington over the fact that Mr Karadzic is still at liberty and wielding considerable influence in the Serb-controlled half of Rosms. The US State Department and National Security Agency are understood in have argued for swift action to apprehend Mr Karadzic, while Admiral Leighton Smith, the Nate consummer on the ground, has counselled caution. Military experts believe a US commando operation, with no direct involvement by Nato's Implementation Force (ffor), is under consideration.

Mr Frowick said ffor – which has a mandate to arrest any

suspected war criminals they "come across" - should act more firmly. "It seems appropriate . . . for a decision to be made that would let lifor move in to apprehend these people and bring

them to trial," he said in Stockholm.

The British Foreign Office has invited senior diplomats from countries interested in Bosnia to a meeting tomorrow where various policy options, including renewed sanctions against the Serbs, will be considered. Bruce Clark, London

#### US banker's Russian ban ends

Mr Boris Jordan, the American banker who has been a dominant force in Russia's fledgling markets, has returned to Moscow after a brief exile which had sent a chill through the foreign investment community. Mr Jordan's visa was revoked in May without explanation, but many observers had ...

in May without explanation, but many observers that speculated that it was part of a buille for control of one of Russia's main steel milk.

Mr Jordan returned to Russia last Friday, after receiving a visa the day after the country's presidential run-off. Nationalism was a main issue in the presidential battle and some analysts had seen Mr Jordan's visa problems as part of the tense political contest. Mr Jordan, a former CS First Boston banker who defected to set up his own business, said yesterday he was "grateful to the Russian government for clearing up this problem".

#### Prodi names new Rai board

The government of Italian prime minister Romano Prodi yesterday announced a new five-person board for Rai, the state broadcasting corporation, removing the direct influence of the political parties which have traditionally conditioned

The new board, the third in three years, comes at a time of upheaval in Italian television, with new rules pending on TV ownership and the use of satellite and cable television. It also follows a turbulent period under the 1994 government of Mr Silvio Beriuscom which was accused of packing the Rai

ement with its own appointees... The members include three women and are; Mr Enzo Siciliano, one of the country'e best-known literary critics; Ms Liliana Caviani, a prominent film director, Ms Florenza Mursia, who helps to run a family publishing house beavily involved in educational books; Ms Federeica Olivares, a US-trained economist who has set up her own publishing house specialising in management books; and Mr Michele Scudiero, a constitutional law professor. Robert Graham, Rome

Romania toughens banks policy

Romania's central bank has cut its lifelines to two troubled banks and stripped a third of its licence in a dramatic toughening of policy. The central bank said it would no longer support the Transylvania-based Banca Dacia Felix or Repastered Creditulal Romanesc Credit Bank. For the first time since banking was liberalised, the central bank also stripped Banca Fortuna of its licence, saying it had failed to

"The financial situation of the two banks has deteriorated in recent weeks. Since mid-May they have been unable to make outstanding payments," the central bank said. It has so far pumped in about 1,000bn lei (\$329m) to Dacia Felix which recently revealed a 1996 loss of 642.2bn lei - far higher than previously disclosed.

Dacia Felix has said it is owed more than \$200m b companies associated with its former figurehead, Mr Sever

Mr Muresan said yesterday that accusations of mbezzlement made on state radio by the interior minister. Mr Doru Ioan Taracila, last Friday were without proof, and that he had not been give a chance in explain or defend himself. Over the past 18 months, the central bank has repeatedly stepped in to prop up troubled banks. Reuter, Bucharest

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#### France Télécom reduces tariffs

France Télécom yesterday announced average cuts of 13 per cent in the price of national and international telephone calls the second reduction since the start of the year.

The company said the decision had been taken for two reasons. First, because research had indicated that its subscribers would make more calls if they cost less; it was therefore "a real investment in growth". Second, as part of the process of making the company as competitive as possible in the run-up to the complete opening of the French telecoms market to competition in 1998. The state-controlled company, in which a minority stake is

expected to be put up for sale early next year, said it thought prospective investors would welcome such moves to make its prices more competitive. It said the cost of calls to 10 European countries would fall by up to 25 per cent. The 10 are: tha UK, Germany, Andorra, Belgium, Spain and the Canaries, Raly, Liechtenstein,

Luxembourg, the Netherlands and Switzerland. Trade unions said the cuts would be of more benefit to companies than individual subscribers. David Owen, Paris ECONOMIC WATCH.

#### Slowdown in Belgian growth



Belgium'a GDP rose 0.4 per cent in the first quarter of 1996 compared with the first quarter of 1995, and 1 per cent from the final quarter of 1995. according to the National Bank of Belgium. The quarter-on-quarter increase was broadly in line with expectations of a slowdown following tha L8 per cent growth between the third and fourth quarters of 1995. The second quarter growth is expected to be stronger, following more optimistic business surveys from the central bank. But the bank still forecasts GDP growth of

only 1.2 per cent this year. That could make it difficult for Belgium to meet its target of reducing the budget deficit this year to 3 per cent of GDP - one of the criteria for monetary union.

Neil Buckley, Brussels

The EU's trade deficit with Japan fell in Ecn20.7bn (\$25.7bn) Neil Buckley, Brussels

in 1995 from Ecu21.8bn a year earlier, the Eurostat statistical service said. Exports rose 12.5 per cent to Ecu29.9bn from Ecu26.6bn, while imports were up 4.5 per cent to Ecu50.6bn

from Ecu48.4bn. ■ Italy posted a global trade surplus of LA,474bn (\$2.91bn) in April compared with a year-earlier surplus of L3,614bn. ■ French M3 money supply grew 0.6 per cent in May after shrinking 0.9 per cent in April. The central bank said M3 grew 2.4 per cent year-on-year.

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# Russian bank put into administration for Reconomic Analysis.

By Chrystia Freeland

Tha Russian central bank yesterday took over one of the country's largest banks, provoking fears that the nation's fragila banking sector could be on the verge of a wider crisis.

Tveruniversalbank, ranked 17th in the country, will be under the administration of the central bank until September 1, when the authorities will review its position. Tha former Soviet prime

minister, Mr Nikolai Ryzhkov, a leading Communist politi-cian, was a senior executive at the suspended bank and some analysts said the Communist defeat in last week's presidential election had been tha last straw for the highly illiquid

The central bank has pledged to protect Tveruniver-sal's dapositors, who have some Rbs528bn (\$103m) in the hank. The hank's assets are estimated at Rbs6,110bn.

sprouted up since the begineconomic stabilisation has eaten into the easy money of

Foreign investors and political eaders from east and central Europe yesterday welcomed the prospect of greater trade and investment with a more stable, democratic Russia at the first international investor conference since the re-election of Mr Boris Yelism as Russian president, writes Anthony Robinson in Salzburg.

"The election results mark a serious atep forward and ehould create tha stability which attracts foreign investors," Mr Yevgeny Yash, the Russian economy minister, told a central and eastern European economic aummit

rates of inflation which had nourished most of Russia'a nascent banks.

Last week's re-election of President Boris Yeltsin dealt the banking sector a second hlow, pushing down the stratospheric yields on govern-ment bonds which have been a Some 2,500 banks have main source of revenue this

> beginning of the banking crisis of which we have spoken for so long," said Mr Andrei Illar-

for Economic Analysis, a Moscow think-tank. "In the new conditions of low inflation, government bonds were the only source of easy profits for banks. Yields have fallen sharply now, so the entire banking industry could face a major crisis."

But Russian money marke which ground to a halt last August following a severe liquidity squeeze, reacted calmly to the news. Russian bankers said Tveruniversalbank's suspension, on its own, was unlikely to cause untolerable difficulties for the rest of the market

"It is unpleasant because Tveruniversalbank is one of the biggest traders on the market," a senior Russian banker said. But he added that it was not one of the big six or eight banks which dominate the financial sector.

Mr Tom Reed, an analyst at Alliance-Menatep, said one fac-tor which had pushed Tveruniversalbank over the edge was its heavy trading in velse-lya, or promissory notes, issued by a dizzying array of Russian government and mi-vate institutions to ease the cash crunch that has depressed

# Lebed faces Chechnya challenge

Mr Alexander Lebed, Russia's new security chief, yesterday sought to consolidate his position in the Kremlin, holding meetings with the president and prime minister and winning preliminary presidential approval for an extention of his authority.

But Mr Lebed's efforts to turn his third-place showing in the first round of the Russian presidential poll into a powerful role in the adminis tration of President Borls Yeltsin ran into stiff opposition

The boldest rebuif came in Chechnya, where General Vyacheslav Tikhomirov, the Russian military commander in the break-away republic. issued a bellicose ultimatum to Chechen separatists.

At a press conference at the Khankala military base outside Grozny, the Chechen capi-tal, Gen Tikhomirov gave them 24 hours to hand over all their Russian prisoners. If the Chechens, whose own fighters are imprisoned by the Russians, failed to meet the deadline, Gen Tikhomirov warned that "tha joint forces com-mand will take appropriate steps against the bandits and will move to destroy them". Gen Tikhomirov, who had earlier denied a report he was

A Russian convoy near Grozny, the capital of Chechnya, where tensions have increased Chechnya, was quoted by Itarsomething over 1,000 on each this year. The rebels signed a

Tass news agency as saying Gen Tikhomirov's threat has aeparatist leader Mr Zelimkhan Yandarbiyev must raised the tension in Chechnya higher than it has been at anymake concrete proposals by time stace Bussian President Boris Yeltsin initiated peace The oumber of prisopers hald is unclear hut some talks to an effort to boost his reports have put the figure at chances for re-election earlier

ceasefire with the Kremlin exactly four weeks ago. Among its terms, the Russian army agreed to remove all its checkpoints around the region by last Sunday, and to withdraw all its troops hy September I. Both sides agreed to

the signing, each side has accused the other of bad faith and sporadic clashes have continned. Gen Tikhomirov's tough talk has also revealed deep rifts within the military suggests that Mr Lebed will have to tread cantiously as he seeks to carve out a role for himself.

Gen Tikhomirov is seen as a member of the hawkish fac-tion in the Ministry of Defence, which suffered a setback last month when four of Russia's most senior conservative officials were sacked from

the government. Although it is difficult to pigeonhole Mr Lebed's politi-cal philosophy - he veers from crudely nationalist comments to moderate, liberal views the retired general has been an outspoken critic of the Chechen war from the outset. Mr Lebed had said he would travel to the war-torn region this week in an effort to broker a deal.

Gen Tikhomirov's comments are expected complicate that

The commander's aggressive stance has also underscored the rivalry and confusion which has beset the Russiao military since the dismissal of

# tha early years of reform, long," said Mr Andrei Illar-bringing down tha sky-high ionov director of the Institute Plan to save one of world's dirtiest towns

he one bit of good news for the environment in the heavily industrialised Azerbaijani city of Sumgait is the terrible news about its industry. Nearly every factory has had to close because of spiralling costs, a collapse of subsidies and the loss of once-captive Soviet markets. For many who have suffered

one of the most notorious envi-ronmental disasters in the former Soviet Union, this has delivered some relief, in spite

And now a United Nations plan to resurrect Sumgait's economy brings hope of both jobs and cleaner air, but there are some formidable obstacles.

Sumgait, a city of 300,000 people about an hour's drive from Azerhaijan's capital, Bakn, was set up before the second world war to take advantage of its proximity to Caspian Sea oil fields, producing petrochemicals, energyintensive metallurgy and heavy equipment for the entire Soviet Union.

Dr Khalida Kuliyeva, the town's head paediatricism, has the unenviable task of record-

There are 5m tonnes of toxic waste in Sumgait. It is stored in unorganised dumps. In some cases it is simply tossed into the street

> ing the public health effects of Sumgait's factories. Her statistics, compiled from hospital records, ahow a nearly eightfold increase in the rate of children born with birth defects in the town between 1970 and 1990. The percentage of children born prematurely nearly doubled, and the premature babies'

mortality rate more than tri-

The numbers add up to disturbing anecdotal evidence. "Gassanova Shafa, 33 years old and a former worker in our aluminium factory, had five pregnancies. The first four ended in miscarriages. The fifth, her first live child, was born on March 26. It had a rupture in its skull and ruptures in its spine from which nerve tissue escaped. Its heart was deformed and its legs curved. It died within two days. She can no longer have children, Dr Knliyeva said. And clean air or not, 5m

tonnes of toxic waste have already accumulated in the town, said Mr Mamed Mamedov, head of the Sumgait city ecology committee, a government agency. Pointing to a map, he said: These red curcles are unorganised dumps. . the waste is simply tossed into the street." tossed into the street."

Indeed, in the blasted clearings that border the now silent hulks of chemical factories, heaps of funk are strewn haphazardly. Unmarked barrels lis rusting. Youths graze sheep



and gusts among the weeds. hope is to get out of Sumgait.
"Azerbaijan is my motherland, the motherland of my ancestors. But for them - the here," said Mr Gamlet Nadzhafov, 61, who has already sent his wife to Russia.

"I want to sell the apartment, but the money I would get for it won't even cover our travel costs," he said.

The town hardly seems like
a magnet for foreign invest-

ment. But that is precisely what the UN Development Pro-gramme and the Azerbaijani government have in mind with a plan for a "special economic zone". The 200-page plan, opti-mistically entitled "City of Tomorrow" and made public in a summary last week, calls for an infrastructure overhaul and hig tax incentives and subsidies to attract investors.

The plan'e leading backer, the UN's resident co-ordinator, Mr Paolo Lembo, said the goal was to "halt a situation that was deteriorating into a state

of collapse and apocalypse".

Mr Lemho said that although few of the particulars of the plan had been spelled out, interest from overseas investors was already high. Hundreds of foreign companies have looked at the project, he says, including the Bank of Anstria, Siemens and Kaiser Engineering, which is exploring the possibility of resurrecting Sumgait's alu-

Investors will be expected to replace dirty, money-losing Soviet technology with new, cleaner and more efficient production methods. They will also be obliged to contribute to fund. But such a tax will have to be kept low to avoid undoing the incentives that will lure them there in the first

place.
That leaves open the qu tion of who will pay the hundreds of millions of dollars which Mr Lembo admitted would be needed to clean the place up fally. Mr Lembo said he doubted Ms Kuliyeva's health statistics, but his report concedes that Sumgait has become "an unhealthy place to

Until comething is done about that, any foreign companies opting to invest in the special economic zone may have to devise incentive schemes of their own, if they want to convince their managers to live in Sumgait.

Peter Graaff

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Microsoft to sue

Argentine state

Microsoft's Argentine unit yesterday said it planned to sue the

Argentine government at all levels for allegedly using protect

"Ninety per cent of the public administration, at national,

provincial and council level, uses illegal software, a cauding to Mr Federico Gagliardo, a local Microsoft manager who made his statement to the Clarin newspaper.

"State-sector fraud costs software producers \$50m a year.

Reuter, Puenos Aires

And we are going to take cases to court," he said

WORLD TRADE NEWS DIGEST

# Delta urges veto on BA-American link

Aerospace Correspondent

Delta Air Lines yesterday became the first large US carrier to call for the proposed alliance between British Airways and American Airlines to be vetoed.

Several US airlines, including United, Continental and TWA, have indicated they are prepared to see the deal go ahead if they are, in return,

granted the right to fly to London's Heathrow airport. But Delta said yesterday it

accepted the UK government could not ensure increased Heathrow access for US carriers as the allocation of landing and take-off sints was governed by European Union

Mr Robert Coggin, Delta's executive vice-president, said: "The British government's argument that it bas no power

over Heathrow slots is absolutely correct. It's not their

Mr Coggin said that in the absence of a new mechanism to allocate Heathrow slots, the BA-American deal should be

"This is a bad deal. It is not a partnership that's going to foster competition. It concentrates too many resources in the hands of the two carriers." The only other large airline

Renato Ruggiero: WTO head wants to help 48 poor nations

By Neil Buckley in Brussels

The European Commission

and Japan yesterday reached

an understanding that a bilat-

eral US-Japan pact on semi-conductors should be replaced

with a global inter-governmen-

This came as the US and

Japan prepared to resume

talks on renegotiating their

existing bilateral agreement which expires at the end of

this month. Europe argues

that its chip manufacturers

have been at a disadvantage

because of the US-Japan

Mr Peter Carl, the European

tal forum.

to express outright opposition trian Airlines and Sabena of to the alliance is Virgin Atlantic of the UK, with which Delta has a "code sharing" agreement, allowing the carri-

Mr Richard Branson, Virgin's chairman, was in Washington last month arguing against the deal.

ers to sell seats on each other's

In addition to its arrangement with Virgin, Delta has an But Mr Coggin said these

alliances accounted for far smaller shares of the market than the BA-American deal. which will control 60 per cent of UK-US flights. Negotiators from the UK and the US are to continue talks in London next week in an attempt to conclude an "open skies" deal which would allow the BA-American deal to go ahead.

However, officials say the two sides are still far epart on the Heathrow slots issue.

The UK has said in negotiations so far that US carriers could gain access to Heathrow under EU regulations requiring half of new slots to be given to new entrants.

The US has said this is insufficient, and is pressing for the UK to find a way of guaranteeing access to its

because at least two of the

potential beneficiaries, Bangla-

desh and Kenya, are sizeable

Special actions to remove

barriers to their exports would

plans for complying with a WTO agreement to liberalise

trade in textiles, a timetable

for which has been submitted

Union broadly supports Mr

Ruggiero's initiative, it seems

unlikely that it could go abeed

Although the European

textiles exporters.

to Congress.

#### Mr Gagliardo said his company has already taken the government of Mendoza province to court for Sim. accusing it of using illegal software on 4,500 of its 6,500 computers. He estimated that, including companies using parated software, the lost sales total \$195m a year - depriving the government of value added tax revenues. Fujian delegates visit Taiwan

A trade delegation from the Fujian province in China arrived countries would be ready to in Taiwan yesterday to promote investment in the province, which faces the island across the Taiwan Strait. contribute to such a scheme, or that it would genuinely balp During the 10-day visit Mr Chen Zidong, director of Fujian's the poorest economies. Taiwan affairs office, will meet officials of Taiwanese Washington also says the proposal could create problems

companies with investments in the province. The seven-member delegation will also visit the ports of Taichung and Kaohsiung, which the Taiwanese government has designated to handle trade across the Taiwan Strait. Taiwan has banned direct trade, transport and communications with China, but last year approved the trans-shipment of goods from third countries to Chinese ports require amendment of US

Expectation that the ban will be dropped altogether bas risen with the approach of Hong Kong's return to Chinese sovereignty next year. Most of Taiwan's trade with China is

routed through the British colony. Taiwan has relaxed restrictions on visits by Chinese officials in an effort to increase contact.

The US and Japan will hold talks this week over claims by Washington that US producers face unfair barriers in the multi-billion dollar Japanese photo film market, officials from both sides said yesterday.

The talks will be held in Geneva from tomorrow until Thursday. They are the first step in the dispute settlement procedure of the World Trade Organisation, to which the US decided last month to take the case. Tokyo is considering whether to make a counter case

against the US, also at the WTO. Foreign Staff, London

Bell Canada international, 100 per cent owned by BCE. Canada's largest telecommunications group, is expanding its agreement with China United Telecommunications for a cellular network in Yantai, the main city in the Shandong province, to the cities of Jinao, Weisang and Zhibo. The combined Shandong network will serve 25m people and will later be extended to other cities. Shandong has a total Robert Gibbers, Montreal

Wideroe of Norway, a Bombardier customer for 40 years, is : the first European airline to place a firm order for the new . 70-passenger 8-400 turbu prop, for delivery in late 1999, Together with two used 8-100 and 8-300, both smaller models, Wideroe's order is worth \$40m. Wideroe will have 21 8-series

aircraft by the end of the year. Exbud, the Polish construction company, has signed an 18.5m zloty (\$6.8m) contract to build the first phase of a wholesale supermarket for Makro, the Dutch cash and carry supermarket chain. The building will be constructed in Christopher Bobinski, Warsand Luhlin, south-east Poland,

# 'National' car | US cool on WTO chief's plan plan presses on for trade help to poor nations in Indonesia

Indonesia plans to deliver models of its "national" car to buyers in October, defying international criticism of the controversial car policy, which puts established investors in the country's automotive sector at a disadvantage.

Under Indonesia's national car policy Timor Putra Nasional, e company controlled by Mr Hutomo Mandala Putra, President Suharto's youngest son, has been awarded large tax and tariff breaks to produce the Timor a 1.500cc sedan manufactured in co-operation with Kia Motors of South Korea.

The US, Europe and Japan have said the policy breaches tenets of the World Trade

Mr Hutomo, who unveiled e prototype of the car yesterday. said Indonesia's national car programme "cannot be stopped". Some 60 Timor cars - made in Sonth Korea and resembling Kia's Sephia sedan - have been imported and will go on display in Jakarta over the next few months hefore deliveries start in October.

Timor Putra Nasional bas been given permission to import 49,000 built-up Timor cars tax and duty free from South Korea until June next year, provided Indonesian workers are involved in their production and the cars use a

made in Indonesia. Mr Hntomo said the Timor will sell for Rp35m (\$15,000), about half the price of other sedan models in Indonesia. Timor Putra Nasional plans to assemble Timor cars in Indonesia in March next year.

The unveiling of the Timor was timed to pre-empt the launch of another national car. which is being manufactured by e company controlled by Mr Bambang Trihatmodjo, Mr Hutomo's older brother. Mr Bambang's national car, however, has not been awarded any tax and tariff breaks.

Citra Mobil Nasional, a sub sidiary of Mr Bambang's listed holding company Bimantara, is due to launch two versions of its national car, manufactured in co-operation with Hyundai Motors of South Korea, on July

Mr Bambang has held discussions with Mr Tunky Ariwibowo, minister of trade and industry, over the past few months to push for tax and tariff breaks similar to those awarded to his brother. But the minister has been reluctant to eward "pioneer" status to another car manufacturer. Nevertheless officials et Mr

Bambang's company are optimistic. Talks were going on and it was "just a matter of time" before the company got tax and tariff hreaks, said Mr Jongky Sugiarto, Citra Mobil Nasional's president director.

The US has expressed strong reservations about a proposal by Mr Renato Ruggiero, head of the World Trade Organisation, that industrialised nations and advanced developing economies agree on trade concessions to belp the world's nomest countries. Although Washington has

not said outright that it will oppose the scheme, it has told Mr Ruggiaro it is unenthusiastic about it and would have difficulty securing the legislation needed to put it into

The negative US response is a setback for Mr Ruggiero only 10 days after he unveiled his

Union's chief negotiator, met

officials of Japan's Ministry of

International Trade and Indus-

try in Toyko yesterday follow-

ing talks between the Commis-

sion and Japan at the Group of Seven summit of leading eco-

Mr Carl said the two sides

agreed that inter-governmen-

tal co-operation should be on a

multileteral, not hilateral

basis. They called for creation of a "Global Governmental

Forum" to promote free trade

in semiconductors and for

exchange of information and

discussion of government poli-

nomic nations in Lyons.

of the world's leading industrialised countries. He had hoped to win backing

for it at the WTO's ministerial conference in Singapore in December. Mr Ruggiero has proposed that the WTO's richer mem-

bers commit themselves to abolishing tariffs and onn-tariff barriers on a range of exports from the 48 poorest countries, as part of an effort to prevent them being marginalised in the global economy However, the US has said that to participate it would

need to obtain fresh legislative authority from Congress, which would be difficult in an election year.

comprise Japan, the US and

the EU hut would be open to

other members. The touch-

stone of its operation would be

respect for market principles -

with markets, not govern-

ments, to determine market

share - and consistency with

World Trade Organisation

It is not satisfied thet enough advanced developing

Backing for global chips forum The US bas been pressing Tokyo to conclude a new "transitional" bileteral semi-

> A sticking point may still be Jepan's insistence that the EU remove tariffs before any agreement can be signed. The Commission says it would be prepared to discuss lowering tariffs as part of an agreement, hat does not eccept removal of tariffs as a precon-

conductor accord when the existing deal expires on July 31. But Japanese trade offibileteral arrangement is no longer needed now foreign mennfacturers bave gained more than a 30 per cent share of Japan's microchlp market Mr Carl said European chip

producers only had a 1.5 per cent share of Japan's market. due to "pressure on Japanese buyers of foreign semiconductors to purchase Americanmade semiconductors".

#### The forum would initially **NEWS:** INTERNATIONAL

# US irked by Netanyahu cabinet move Early use

By Julian Ozanne in Jerusalem

Mr Benjamin Netanyahu, Israeli prime minister, formally appointed Mr Ariel Sharon, the ultra-nationalist former general, to his cabinet yesterday hours before he left Israel for his first official visit to the US as prime minister.

Mr Sharon's appointment, which was approved by parlia-ment yesterday, will anger Arabs and concern US officials who believe his powerful role in the government in the ministry of national infrastructure will further harm the fragile Middle East peace process.

In Washington Mr Netanyahu will come under pressure to explain to US President Bill Clinton and administration officials how he intends to pursue the paralysed peace pro-cess which the US has underwritten both diplomatically and economically.

Mr Netanyahu, who would much rather discuss his government's plans for sweeping reforms of the economy, is expected to outline a vision of a much slowed down peace process with a de facto freeze on negotiations with Syria and creeping, highly limited movement with Palestinians.

He will argue that the principle of land for peace, enshrined in United Nations resolutions, the foundation stone for peace efforts in the region, is not acceptable to his government. He is expected to tell Washington that there are few prospects for a resumption of peace talks with Syria over return of the Israeli-occupied Golan

Heights as long as Syria continues indirectly to beck ettacks against Israel by pro-Iranian guerrillas in Lebanon. On peace with the Palestinians he is likely to reiterate his government's opposition to the establishment of a Palestinian

state or the transfer of any more land from Israel to Palestinian control in the West Bank and Gaza Strip. Instead he will outline his

vision of limited autonomy for the Palestinians backed hy greater access to the Israeli economy in return for the Palestinian Authority disarming Islamist guerrillas and further clamping down on terrorism. He will also slightly soften his stand towards meeting Palestinian President Yassir Ara-

fat, at some future point, and unveil plans to ease Israel's blockade of Palestinian areas. But he will not outline his government's intentions on the long delayed promise to withdraw troops from the still Israeli occupied West Bank town of Hebron, a flashpoint of Arab-Jewish violence.

Mr Netanyahn's position is unlikely to satisfy the Clinton administration but the US president will be cautious in criticising the new prime minister ahead of US elections, on which the US Jewish lobby could have an impact. While in the US Mr Netanyahn will also meet members of Congress, leaders of the Jewish community and investment bankers in

# Unity of apartheid's foes under strain

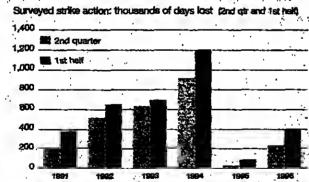
s President Nelson Mandele begins bis Britain today, investors who have long been wary of the historic alliance between his African National Congress and South Africa's trade unions are now wondering whether the ties are strong enough.

The week-old "wild cat" strike at Anglo American's Rustenburg Platinum Mine, the world's largest platinum undisciplined action can be more of a problem than a strong union movement, which condemned the unofficial

Now the ANC government's recently released economic policy threatens to undermina both the inflnence and the self-esteem of the Congress of South African Trade Unions (Cosatu), the country's largest labour federation.
If Cosatu condones the aus-

terity measures at the core of the government's strategy for growth document, such loyalty to the ANC could exact a beavy toll on the unions' influence beyond the ranks of their 1.4m membership, a minority of the workforce.

The fiscal targets announced on June 14 by Mr Trevor Manuel, finance minister, embrace the orthodoxies of the World Bank and the International Monetary Fund with considerable fervour. In so doing, the government bas largely rejected Cosatu's calls for more public spending, higher corporate tax rates and the mainteFall and rise of South Africa's strikes.



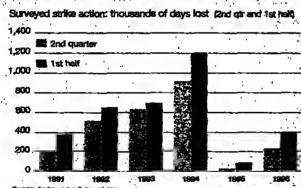
nance of exchange controls. Instead, the government plans to reduce the budget deficit to 3 per cent of gross domestic project by 2000, from 5.2 per cent this year.

The week-old stoppage at

Rustenburg bas united Amplats and the National Union of Mineworkers in condemning the strike hy about 21,000 non-unlopised workers. But to little avail Their demand, that the company repay their tax and national insurance contributions, has cost Amplats R100m (\$23m) and prompted the dismissal of the entire workforce of 28.000. including a large number of NUM members.

Amplats, which said it was willing to re-hire employees who agreed to return to work, said yesterday more than 3,000

"Wild cat strikes are inimical



to the whole structure of government has tried to build. They are becoming more and more rare," says Mr Stephan Malherbe, a policy analyst at

Anglo American. For all that, consensus remains elusive. A recent survey by Andrew Levy and Associates, a Johannesburg based labour consultancy, found the number of "man-days" lost through strike action in the year to date has increased fourfold to 400,000 since last year's record low. It predicts the rising trend will continue as euphoria in the wake of the all-race election of 1994 gives wey to more material

"The fundamental question whether, given the history that we have, there can be a social partnership hetween business, labour and the gov-ernment at all," says Mr Jayandra Naidoo, executive director of the National Economic Development and Lahour Council, a tripartite policy forum for husiness, unions and the government.

Mr Manuel's argument is that austerity now will be rewarded with 1.35m new jobs and a fivefold increase in foreign direct investment to \$800bn a year by 2000. The unions have postponed their verdict on this "No pain, no gain" formula until later this month - Which gives politi-cians time to lobby its historical allies in the anti-apartheid

We are no longer secondguessing what the position of the government is. The fact that we don't agree does not mean we have to throw our hands up in the air and abandon our alliance with the ANC," says Mr Sam Shilowa,

Many businessmen will agree. Reassured by the promise of tax incentives for inves-tors, further trade liberalisation and steps towards the ebolition of exchange controls, business leaders are keen to placate labour.

In his annuel stetement released last month, Mr Julian Ogilvie Thompson, Anglo American chairman, beld out an olive branch to his union critics. Business had successfully lobbied the policy-makers. he said, but its contributions to the economic policy debate had heen "too prescriptive" and

paid "too little attention to development issues". The comment may be scant consolation for the unions, but it would have been inconceivable a month ago.

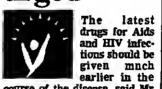
Industrial relations will be critical to investor confidence, which is currently at a low ebh. Despite the fact that South Africa has an 18 per cent weighting in the International Finance Corporation's emerging markets index, foreign fund managers have limited their exposure to South African equities to an average 4 per cent of emerging market portfolios. And foreign direct investment has so far been dis-

The government's shift in the direction of favouring a policy of privatisation, sig-nalled in statements made by Mr Mandela after his visit to Germany and in the growth strategy document, may prove an even more divisive issue as far as the unions are concerned Levy and Associates

Privatisation is not a word Mr Manuel will use in public, preferring suphamisms about the "restructuring" of state

But be is edamant that his fiscal targets, which for the first time include revenue from the sale of minority equity stakes in state-owned corporations, are "not up for negotia-

# of new urged



course of the disease, said Mr Scott Hammer, opening the first main session of the Eleventh International Aids Conference in Vancouver, Canada, yesterday, writes Daniel Green in Vancouver.
Mr Hammer, associate pro-fessor of medicine at the Har-

vard Medical School, Boston, said even moderately potent combinations of drugs led to a 45 per cent reduction in the risk of death in patients not yet seriously ill with Aids. This is in contrast with trials of older drugs which suggested there was no benefit

from early prescribing. Latest treatments, on the market since the start of 1996, held out the promise of eliminating the virus from the body entirely. Previously, measurement of success was in slowing down the disease's progress. Other research presented at the conference showed that in trials lasting up to 48 weeks, it

was possible virtually to eliminate the HIV from the bloodstream in between 40 per cent and 90 per cent of patients. But the optimism of researchers and drugs compa-nies was tempered by accusations of hyperbole by Aids sctivists. They also accused Merck and Abbott Laboratories of the US and Switzer-The companies recently launched drugs which formed the basis of the promising results. But the results are obtained only when several drugs - usually three - are taken together, the cost esti-mated at up to \$13,000 a year. Dr Brian Gazzard of the

Chelsea and Westminster Hospital, London, said his hospital's drugs bill for Aids/HIV would rise from £250,000 (\$390,000) a year to up to £9m if combination treatments were used excinsively. The annual cost per life saved with combination treatment was Mark Ashurst Editorial Comment, Page 13

International Court of Justice finding will put pressure on world powers

# Aids drugs Use or threat of nuclear arms 'unlawful'

By Gordon Cramb in The Hague

The use or threat of nuclear arms was unlewful under most circumstances, the International Court of Justice said yesterday in a finding which delighted disarmament campaigners and put pressure on the main world powers to step up efforts aimed at curtailing the weaponry.
The World Court's keenly

awaited "advisory opinion," although carrying no legal force, was sought by the United Nations General Assembly at the end of 1994, and the outcome will be used by countries seeking to re-start Geneva talks on a Comprehensive Test Ban Treaty. CTBT negotiations stalled

last month after China, along with Russia, insisted that so-called thresbold nuclear powers - india, Pakistan and Israel - ratify the treaty before its provisions became binding on the five declared nuclear powers which comprise the permanent members of the UN Security Council - the US. Britain, France, Russia and

This followed a refusal by New Delhi to renounce tests unless the five signed up to a timetable for complete nuclear disarmament.

The UK Foreign Office said last night that the court's opin-

ion was complex and required careful study. France has continually questioned the compe-tence of the court in the issue. The 14 judges of the World Court, the UN's judicial branch which sits in The Hague, first found unanimously that "a threat or use of force by means of nuclear weapons. . . is unlawful" if it contravenes stipulations in the UN charter

which protect territoria) Integrity and political indepen-Then they reached a less clear-cut interpretation on the

under other circumstances. casting vote of Mr Mohammed Bedjaoui, the Algerian presiding judge, carried a recommen-dation that "the threat or use of nuclear weapons would generally be contrary to the rules of international law applicable in armed conflict, and in particular the principles and rules of humanitarian law".

The court went on to say that it "cannot conclude definitively whether the threat or

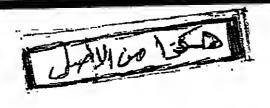
Finding will be used by countries seeking to re-start Geneva talks on a Comprehensive Test Ban Treaty

use of nuclear weapons would be lawful or unlawful in an extreme circumstance of selfdefence, in which the very survival of a state would be st.

However, anti-nuclear activists pointed out that the division came because three judges wanted to go further in circum-scribing the nuclear deterrori-Mr Peter Weiss of the International Association of Lawyers Against Nuclear Arms said. R

is really 10-4 for illegality.
"The only exception is an extreme case, and in that case use might be illegal. That is totally different from the posttion of nuclear weapon states. which put forward deterrence as a tool against anything they

want to deter." In another part of its finding, the court said with unanimity that "there exists an obligation to pursue in good faith and bring to a conclusion negotia-tions leading in nuclear disarmament in all its aspects. under strict and effective interfiring of atomic worbeads national control".



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Age of the same

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By Jurek Martin in Washington

The US Senate yesterday headed towards a vote on the issue that has tied up Congress for weeks - the first increase in the federal minimum wage since 1989 - and along battle lines that mirror the House action at the end of May.

A crucial vote could come as early as today, with the main division not on raising basic pay from \$4.25 an hour to \$5.15, which will probably pass, but on an amendment exempting small businesses from having comply. President Bill Clinton has

warned repeatedly that he will accept only a "clean," uncondi-tional increase in the minimum wage and will veto any "poison pill" rider intended to mitigate its effect.

Organised labour and business associations have been lobbying furiously on the mini-mum wage, with each side targeting senators from both parties still uncommitted on the small business exemption. As drafted by Senator Chris-

topher Bond, the Republican leader, quickly agreed to from Missouri, the amendment schedule a division in the week would free all businesses with less than \$500,000 in annual sales from having to pay the higher minimum, would permit them to pay new workers the old scale and delay the effective date of the overall increase until the start of next

The Clinton administration and congressional Democrats claim that this would render virtually academic any increase in the minimum wage and thus deny a necessary boost to the pockets of at least 10m working Americans. While he was Senate major-

ity leader, Mr Bob Dole, now the presumed Republican pres-idential nominee, blocked a floor vote. But his departure for the full-time campaign trail and votes in the House approving tha minimum wage increase and rejecting the small businass exemption

changed the political calculus. Senator Trent Lott, Mr Dole's successor, and Senator Tom Daschle, the minority break.

The House votes in May were notable for the number of moderate and freshmen Repub-licans, all up for re-election, who broke with party ortho-doxy to back the increase.

The Senate is usually the more unpredictable chamber. This time, with only one third of its seats up for grabs in the November polls and with over half that number retiring, nei-ther side is confident of victory on the Bond amendment.

Broadly speaking, the minimum wage debate has cut in favour of the Democrats, according to public opinion polls which have shown majorities as high as 80 per cent in favour of an increase. This explains Mr Dole's reluctance to risk defeat in a vote.

But now that be has distanced himself from Congress the potential damage to his presidential ambitions has

# Former Clinton colleague seeks to lead Perot ticket

By Jurek Martin in Washington

Mr Richard Lamm, the former rado, is expected to announce today that he is willing to become the presidential candidate of the new Reform party set up by Mr Ross Perot.

His bid, if nothing else, should have the effect of forcing Mr Perot, the 1992 independent candidate, to declare his intentions before the Reform party holds its two-city, twopart nominating convention in pext month.

It may also concern President Bill Clinton's re-election campaign as Mr Lamm could increase the Reform party's appeal to Democrats either as a candidate or as an active supporter of Mr Perot. His name. with Mr Perot's, is already on a preference questionnaire sent to 1.3m party members.

Mr Richard Lamm, the former Mr Lamm, Colorado gover-Democratic governor of Colo-nor from 1975-87 and a former close associate of Mr Clinton, switched to the Reform party last month, after a successful address in which he lamented the Democratic party's inabil-ity to adapt its New Deal social programmes to modern needs. Once a classic if iconoclastic

liberal Democrat, Mr Lamm now subscribes to most, if not all, of Mr Perot's cardinal points, ranging from reforms of the social safety net to the balanced budget. Mr Lamm's most recent crusade - for a moratorium on all immigration, legal and illegal - may not correspond with the Texas billionaire's views.

Opinion poll evidence sug-gests the Reform party will do less well this year than Mr

1992, when he pulled in 19 per cent of the popular vote. But in big states, not least California and his native Texas, even 10-15 per cent could tip the balance in the favour of Mr Clinton or Mr Bob Dole, the pre-

sumed Republican nominee. The great unknown is what Mr Perot will do. Before Mr Lamm came on board, Mr Perot's substantial ego had deterred other politicians disaffected with politics-as-usual from joining his cause. Even if he steps aside in favour of Mr Lamm it is doubtful that the party's official candidate would be given much rope. Last month the Federal Election to about \$30m in federal matching funds this year if Mr

Commission ruled that the Reform party would be entitled

Sarita Kendall on an unpredictable president-elect

Ecuador's populist choice seeks to reassure business

r Abdalá Bucaram has often said that Ecuador will sink or swim with him as president. The voters who gave him an 8 percentage point victory over the market-oriented Social Christian candidate, Mr Jaime Nebot, in Sunday'a run-off election clearly believed tha risk worth taking. Now, the 44-year-old populist has to try to meet the enormous expectations he stirred up during his theatrical electoral campaign.

Mr Bucaram's first statements as president-elect were designed to reassure, particularly tha private aector, the military and the establishment he has attacked so furiously.

His personal and political unpredictability has created a concern in business circles that will be difficult to dispel. Referring to the country's economic management, Mr Bucaram said on Sunday: "The financial sectors should not worry, I shall maintain the present scheme without major

Nonetheless, prices of Ecua-dor's Brady bonds - the country's most widely traded asset - fell 5 per cent in London in reaction to his victory. The Ecuadorean currency, the sucre, also slipped.

Mr Bucaram named his Roldosista party after his brother-in-law, Mr Jaime Roldos, Ecuador's first civilian president after tha military regime of the 1970s. An athlete and lawyer, Mr Bucaram started his political career in the Roldos government, but Mr Roldos was killed in an aircraft crash after governing for less than two years.

Mr Bucaram, whose grand-parents emigrated from Lebanon, is set to be South America's second leader of Arab extraction, after President



TEARS OF JOY: Abdalá Bucaram, left, celebrates news of his victory with son Jacobo

Carlos Menem of Argentina. His career includes a short, stormy period as mayor of Guayaquil, and then, after ha was accused of fraud, volun-

tary exile in Panama. With less than a third of the seats in Congress, his party will have to forge a coalition to govern. Mr Bncaram bas already made pacts with some of the smaller parties and plans talks with a centre-left grouping of Christian Democrats, Social Democrats and indigenous representatives.

However, Mr Raul Baca, a leader of this parliamentary grouping, said he sees tha centre-left bloc as "a balancing source" which would seek solutions to the country's economic and social problems, but could not provide unconditional backing for a Bucaram government. He said there could be a joint strategy to fight corrup-

tion, a hot issue in Ecuador. One of Mr Bucaram's advantages - mexnected because nearly all the three election surveys and exit polls forecast his defeat - is the fact that be not only won by a significant national margin, but he also took all the provinces except his own, Guayas.

"This is a vote of despera tion, a vote by the poverty stricken," said centre-left candidate Mr Freddie Ehlers, who

was pushed into third place by Mr Bucaram in the first round of the presidential election.

Throughout his campaign Mr Bucaram used his emotional, charismatic showmanship to galvanise the poor. He was evasive on economic policy but strong on social themes, with proposals for housing, education and health.

Ms Rosalia Arteaga, vice president elect and the first woman to reach this post, will have special responsibility for social questions. She is a former education minister.

After the election Mr Bucaram reaffirmed his commitment to governing for the poor, saying that he felt "a greater responsibility for human beings than for statis-tics". However, he also promised "extraordinary" opportunities for investors and invited businessmen for discussions. We are going to produce and to compete.

President Sixto Durán Ballén's outgoing government has made some progress towards liberalising and modernising the economy in the last four years and has brought annual inflation under 24 per cent. International reserves are over \$1.5bn, the trade surplus increased in the first months of 1996 and the budget deficit officially stands at about 1 per

cent of GDP, though a number of experts question this figure, Although privotisation has been a constant issue during this administration, little has heen achieved. Referring to the

important oil sector during the campaign, Mr Bucaram said he wanted "capitalisation" by investors not privatisation. He also pledged to bring down interest rates, redefine the role of the banks, and renegotiate Ecuador's foreign debt. One priority is to reactivate

GDP growth, which sank to 2.3 per cent last year and is unlikely to be much higher than this, but again his proposals have been less than spe-

Between now and August 10, when he takes over, Mr Bucaram will be working to gain the support of centre-left pollticians and businessmen. He said he hoped the present foreign minister, Mr Dalo Leoro, would stay on to pro-vide continuity in talks with Peru, with which Ecuador fought a brief border war last

\*Ecuador needs consensus and dialogue, said Mr Bucaram. Admitting to feeling exhausted after the long campaign, he nevertheless promised to start immediately on the process of coalition build-

#### Clinton in dilemma over Cuba hijack

A Cuban military officer has hijacked a Cuban commercial aircraft to the US navy base at Guantanamo Bay in the east of the island, posing an awkward problem for Washington.

According to US officials. lone Cuhan gunman, identified as Lt Col José Fernandez Pupo, forced the aircraft to land at the base on Sunday and asked for asylum in the US. Under a bilateral immigra-

tion accord agreed on May 2 last year between Havana and Washington, Cubans who try to immigrate illegally to the US by sea or to the Guantan-amo Bay base are to be returned to Cuba.

Mr Ricardo Alarcon, a member of the Cuban politburo. said the incident was a clear violation of toternational antihijacking agreements. It would also violate the bilateral immigration accord if the asylum seeker was not returned, he said. US officials made clear they were treating the incident as a hijacking.

The incident comes as President Bill Clinton is considering whether to enforce implementation of the most controversial part of a new law tightening US economic sanctions against Cuba.

Mr Clinton must decide before July 16 whether to delay enforcement of a provi-sion of the Helms-Burton law allowing US claimants of nationalised Cuban properties to sue any foreign company judged to be "trafficking" in these properties in Cuba.

Republican backers of the law, as well as sectors of the big Cuban exile community in Miami, have been pressing Mr Clinton not to exercise a waiver to delay this provision of the law for six months.

The armed hijacking is also potentially embarrassing for the US because it has been lob-bying the United Nations Security Council to condemn Cuba over the shooting down last February 24 by Cuban fighters of two US-registered small aircraft crewed by Cuban exiles.

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- wheet. General Directorate of State Reserves invites the bidders to participate in international Sid for purchasing of 50,000 tons milling wheat promptly.
- 3. Bidding documents may be purchased at General Directorate of State Reserves Tirana Albania for a nonrefundable fee of 150 USD for each set on the submission of a written application. Interested bidders may obtain further information at the same address.
- Bids must be submitted to General Directorate of State Reserves no later than 25 August 1996, 15.00 local time at which the Bid will be opened in the presence of the bidders or their representa 5. The Bid security will be forfeited if a bidder withdraws his bid during the validity period or refuses to accept the award of the

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and in the Master of the Implyency Act 1986 NOTICE IS HEREBY GIVEN that a Meeting of Creticon in the above matter in to be held at the The Streffield Mont House, Cheverfield Road The Smellish Mont House, Chemerikal Road South, Shellisht, South Yerkshire on 23rd Jely 1996 at 200pes, to consider my proposals under section 25(1) of the Insolvency Act 1998 and to consider middlelling a Cordinon' committee. A proxy form if appropriate should be completed and returned to me at Arthur All and Source Mensinghum. completed and returned to management. Andersea, I Victoria Square. Birmingham. Andersea, I Victoria Square. Birmingham. All 18D by the date of the meeting if you all 18D by the date of the meeting and wish to be cu 18D by the date of the meeting it you cannot attend the meeting and wish to be represented to order to be exhibed to work at the thinding you must give to coe, not leser than 12.00 hours on the business day before the day find for the meeting details in writing of your field.

IN THE MATTER OF POWERSTORE (TRADING) LIMITED (In Administration) and in the Matter of the Insulvency Act 1964 NOTICE IS HEREBY (EVEN that a Meeting of Creditors in the showe matter in to be held at the The Shetfold Most House, Chatterfield Road Seath, Sauffield, South Yarbeitte on 23rd Later. The Sheffledt Most House, Chestericid Road South, Sheffleld, South Yardshire on 23rd July 1996 at 200pm, to consider my futpouth under section 23(1) of the Insolvency Act 1986 and to consider establishing a Cheshour committee. A presy form if appropriate should be completed and returned to me at Arthur Anderson. I Victoria Square, Birmingham 31 1 BD by the date of the muenting if you content artend the meaning and with to be cannot assure the meeting and mist so per cannot assure the meeting and mist so per call the old meeting an amount of the Using the meeting quity is active of lows. 1700 point on the president gas pages and meeting loon went like to me' not jure they extransport when like to me' not jure they

**AMERICAN NEWS DIGEST** 

Perot was its nominee.

## Hurricane Bertha strikes Caribbean

Hurricane Bertha, with gusts of up to 100mph, hit the US Virgin Islands yesterday, peeling off roofs, sending trees flying and causing minor damage in a violent downpour of wind-lashed rain

It also struck the tiny Leeward islands with sustained winds of 85 mph at dawn, then swiftly pushed across the US and British Virgin Islands. By yesterday afternoon, it was expected to hit Puerto Rico. First reports indicated that there was no major damage from the first Atlantic hurricane of the season, but emergency shelters were opened, airports closed and electrical power turned off as a precaution on islands Reuter, St. Thomas throughout the eastern Caribbean.

#### Peru navy in cocaine scandal

Peru's armed forces have been hit by a drugs-peddling scandal after two naval vessels were discovered to be carrying consignments of cocaine.

The ships were discovered within 48 hours of each other last week. The first, the cargo vessel Matarani, was boarded in Vancouver on July 3 after a tip-off. Some 45kg of high-quality cocaine were found and two crew members arrested. The Peruvian naval high command ordered an immediate

search of all its ships.

Two days later, another consignment, this time of 17kg, was discovered on board the Ilo, lying off Lima's port of Callao. The ship, which rerely goes to sea, is thought to have been used as a temporary warehouse for drugs awaiting transshipment. The captain and 58 crew were put under detention.

Criminal drugs organisations are believed to have stepped up their infiltration of the armed forces since airspace to northern Peru, the traditional route for export of cocaine to Colombia, is now relatively well controlled by US-supplied radar. New drugs routes out of Peru rely increasingly on land. Sally Bowen, Lima sea and river transportation.

#### Clinton in fresh video testimony

President Bill Clinton has offered his second videotaped testimony for a Whitewater trial in 10 weeks. Mr Clinton testified for two hours and 20 minutes on Sunday in the case of Arkansas bankers Mr Herby Branscum Jr and Mr Robert M. Hill. They are accused of illegally using bank funds to reimburse themselves for contributions in political candidates, including Mr Clinton in 1990 when he ran for governor, and in

1991 when he considered seeking the presidency.

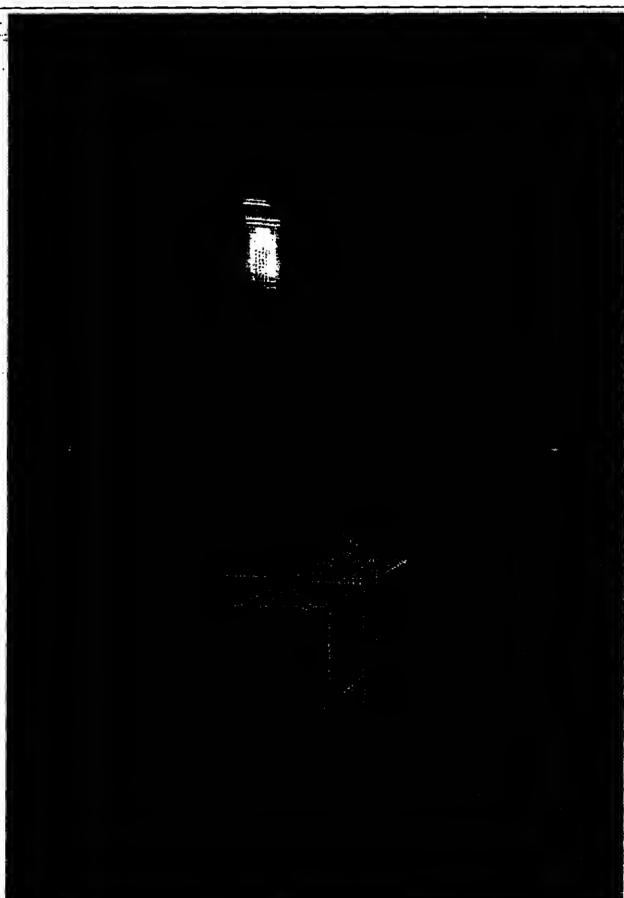
A White House statement reiterated that Mr Clinton was not the first president to testify in a criminal trial. In April Mr Clinton testified as a defence witness for over four hours in the Whitewater trial of Arkansas Governor Jim Guy Tucker, and James and Susan McDougal, Clinton investment partners, all of whom were convicted.

#### Brazil bashed over bean figures

The Brazilian government was under fire yesterday after it became clear that an expensive advertising campaign used misleading figures to hall the success of its *Plano Real* economic plan. Embarrassed officials acknowledged that key claims of the \$3m campaign, such as an 87 per cent increase in the consumption of beans and a 96 per cent surge in beef sales,

were wrong. "Yes, the figures were totally wrong. We did give the agency the correct data but they don't seem to have been very professional, said the central bank.

Bean consumption has actually risen by a modest 1.4 per cent in Latin America's largest country since the start of the economic stabilisation plan. Beef sales rose 4.5 per cent and consumption of chicken increased 16.7 per cent - not 80 per Reuter, Brasilia cent as the advertisements said.



Probably the best beer in the world.

UK Tibet move

China condemned the British parliament yesterday over a planned visit by the Dahi Lama, Tibet's exiled spiritual leader, warning that Sino-British relations would be affected if

the trip went ahead next week. During the one-wook visit, the

Dalai Lama is scheduled to address a meeting of some 200 MPs

Tibetan affairs are purely Chinese affairs, which brook no

at the House of Commons, after which he will have a meeting

interference by any foreign government organisations or

individuals," a Chinese foreign ministry spokesman said. By offering the Dalai Lama a forum in Britain, the All Party Parliamentary Group For Tibet "is supporting and abetting the Dalai Lama's activities to split the motherland on British

the Dalai Lama's activities to split the motheriand on strikin territory," the spokesman said. The Dalai Lama's visit to Britain - scheduled to begin next Monday - is the latest in a series of visits to European countries, all of which have been roundly condemned by China.

AFP. Beting

Deng son-in-law loses army post

The son-in-law of Mr Deng Xiaoping, China's senior leader, hea

lost his key army post, Chinese sources said yesterday. Maj Gen He Ping has agreed to resign as director of the armament department of the People's Liberation Army under pressure

from generals on the communist party's central military

daughter and confidante Ms Deng Rong, was in charge of the Chinese military's arms and equipment purchases. Ms Deng, 46, is the author of the hiography Deng Xiaoping, My Father,

which was translated into several languages last year and

promotional trip.

which was the subject of Ms Deng's well publicised overseas

Gen He's fall illustrates the quickening loss of power of

South Korean MPs end boycott

South Korean President Kim Young sam yesterday opened the

National Assembly, ending a month long boycott by opposition parties. The boycott had been called to protest at

alleged abuses by the government in using law enforcement

authorities, including prosecutors, to intimidate opposition

violations during the parliamentary elections in April unless they joined the ruling party to provide it with a majority in

the 299-member National Assembly. The ruling party won 139

to prosecute some opposition MPs for alleged campaign

The opposition parties claim the government had threatened

Mr Deng Xiaoping, 92, who will be 92 next month and is

in declining health, observers said. For several years, he has been a target of China's old school generals who have been critical of the growing tles between maney and the

commission. Gen He, the husband of Mr Deng's youngest

with Mr Malcolm Rifkind, the foreign secretary.

angers China

ASIA-PACIFIC NEWS DIGEST

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# Japan current account surplus slips

Japan's current account surplus declined by just over 46 per cent in the year to May. a consequence of a continued surge in imports, further swollen by higher prices of foreign goods priced in the rising dol-

The fall in the surplus, to Y361.2bn (\$3.26bn) according to preliminary data from the Finance Ministry, was a factor, along with investors' belief that US interest rates are about to go up, in another rise in the dollar's value against the yen yesterday. The US cur-

rency hit Y111.13 in Tokyo, the it reduces the foreign currency highest since January 1994 and 27 per cent above its level 12 months ago.

Investors' helief that the

Bank of Japan may follow any rise in US rates, triggered a sharp fall in Japanese equities and government bond prices. The Nikkei 225 index fell by 1.38 per cent to 21,924.94 and long-term bood yields rose to just over 3.3 per cent. Japan's trade gap is expected to continue to shrink, pointing to further yen weakness, said econo-While a weak yen is welcome

to Japanese exporters, because

price of their goods, the government yesterday voiced alarm at the recent sharp decline in the exchange rate. Whether it is a high yen or a low yen, steep moves are not favourable," said Mr Seiroku Kajiyama, chief cabinet secre-

The yen-hased current account gap has now shrunk for each of the past nine months. Last month's fall was slightly faster than the 45.2 per cent dip recorded in the year to

Within last month's balance, the goods and services account swung to a Y84.8bn deficit. Imports of goods from Japafrom a Y352.9hn surplus in the same month last year.

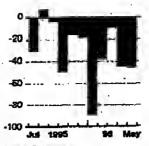
it was the second consecu-tive monthly deficit in goods and services and was seen by the Finance Ministry as further proof of the depth of restructuring by Japanese companies, as they shift production to cheaper locations in Asia and re-export products back home.

Mr Tadashi Ogawa, vice finance minister - the top official in the ministry - said the downward trend of the eurplus was "fairly clear" and reflected structural economic change.

nese companies foreign subsidiaries are expected to increase, added an official.

imports of manufactured goods rose by 36 per cent to Y2,956bn in May - the 22nd monthly rise in a row - growing more than twice as fast as exports, up hy 16 per cent, the 10th month of increase, to Y3.403bn.

The surplus on the merchandise trade account fell by 41 per cent in May to Y447bn, the 18th moothly decline in a row. At the same time, the delicit on the services account rose to Y531.7bn from Y405.9bn in the enual % change (yen based)



same month last year, chiefly

because of a sharp increase io tourist numbers going abroad, a consequence of Japan's eco-

#### RESURGENT COMMUNISTS GIVE MAIN PARTIES A SHOCK

As Russian President Boris Yeltsin rejoiced over the defeat last week of his Communist rival, thousands of miles away in a Tokyo suburb a Commuoist was triumphing, William

Dawkins reports from Tokyo. Mr Hiroshi Yano, 49, became the first Communist mayor of a Japanese town since the 1980s after winning a mayoral election in Komae, a middleclass suburb of western Tokyo, at the weekend. He beat the challenger from the ruling Liberal Democratic party (LDP) hy 10.238 votes to 8.881. Much of Mr Yano's victory came thanks to a special reason: the

chronic gambling and enduring bad luck of his predecessor, Mr Mitsuo Ishii, an independent backed by the be forthcoming, given the problems ruling conservative LDP.

Mr Ishii and his family disappeared in May, along with Y1.1bn (\$9.9m) in unpaid loans, prompting a police investigation which showed that he had lost substantial sums - Y60m in one day - in gambling hinges at the South Korean resort island of Cheju. For suburban voters of Komae, it was a potent reminder of the dark old days of the LDP in the 1980s, when harely a year passed by Korea's, has only 15 of the 511 seats without a senior party figure being in the lower house of parliament and

the former mayor had caused," said Mr Ryutaro Hashimoto, LDP prime

Yet there is a parallel political point from Mr Yano's victory. The Japan Communist party, long dis-missed as the unelectable extreme left of national politics, may be gaining credence.
The JCP, probably the most

extreme communist party after North Korea's, has only 15 of the 511 seats

won only 15 per cent of the vote in the last general election in 1993. And yet the JCP has done well in several local elections in the past

year. In February it falled by only 4.000 votes to win an election for mayor of the ancient imperial capital of Kyoto. The winner, backed by all the leading political parties squeezed in with 222,579 votes, a salotary ebock for the then new government of Mr Hashimolo.

The party's success is being pot down to the declining fortunes of the Social Democratic party (SDP), which has been until recently the guardian of Japanese socialism. The SDP abaodoned its socialist principles on joining the conservative LDP, its life-long enemy, to form a coalition government two years ago. Not surprisingly, the socialists' sup-

porters departed with their former

party's principles. Today, like the reconstructed communists in eastern Europe enjoying a spell in power, Japan's left-wingers are once again visible, under a new label. And, say political observers in Tokyo, the JCP could do well in the place by the end of the year.

# US security adviser seeks to mend links with China

By Sophie Roell In Beijing

The US national security adviser, Mr Anthony Lake, will today hold talks with China's President Jiang Zemin and Premier Li Peog in a visit intended to put the often turhulent relations between China and the US on a more secure

Mr Lake's discussions with Mr Jianz are expected to cover of Representatives' approval Sino-US relations generally. with particular focus oo the possibility of holding regular

high-level meetings hetween the two countries.

Washington has twice this year come close to imposing sanctions oo Beijing for allege sales of nuclear technology to Pakistan and for a failure to crack down hard enough on rampant piracy of US intellectual property. The trade dispute was averted at the 11th hour. Following the US House last month of renewal of most favoured nation atatus for

be an opportunity to discuss some of the non-trade issues undermining the relationship between China and the US. The most prominent of these

ia Taiwan. Washington incensed Beijing by seeding two aircraft carriers to the Taiwan Strait in March as China's war games - aimed at frightening Taiwanese voters away from pro-independence ideas - got under way. The US is now keen for Beijing and Taipei to resume talks

suspended last year after

Taiwan's President Lee Teng-hui's visit to the US. To that end. Mr Lake will also travel to Shanghai tomorrow, to meet the chairman of the quasi-official Association for Relations Across the Taiwan Straits.

Stability on the Korean peninsula is likely to top discussions of strategic regional matters. China and the US are the two external powers involved in the stalled four-party talks on North-South Korean reconciliation. Mr Lake is due to visit Seoul this weekend.

The national security adviser is also expected to press Bei-jing on compliance with noclesr non-proliferation agreements and over human

rights violations. Diplomats in Beijing say they are surprised by the level of access given to a national security adviser. They say the readiness of the top Chinese officials to meet Mr Lake - the most senior US official to visit China since Mr William Perry, defence secretary, in October 1994 - is evidence not only of

an improved climate in Sino-US relations, bot also of a willingness to discuss cootrovarsial issues,

However, they point out that even if a framework for discussing issues regularly is agreed, bilateral relations are now too complex to proceed smoothly for any length of time. With issues as diverse as trade and human rights under the spotlight in a US election year, the hiccups are likely to be as frequent as any meet-

#### seats in the election, but subsequently recruited another 12 opposition MPs to gain a slim majority. John Burton, Seoul Kim Jong-il leads mourning



In a sign that he retains control of North Korea, Mr Kim Jong-li (pictured left) yesterday led a massive memorial raily in Pyongyang on the second anniversary of the death of his father, Mr Kim Il-sung, who established the North Korean state in 1948. Although Mr Kim has not formally assumed power since his father's death. speeches made by senior government officials praised the late president's son as the country's next leader. Most analysts expect that Mr Kim, who is now in command of the military, will not be officially appointed as the country's president and head of the ruling party until next July, which marks the end of

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the traditional three-year Confucian mourning period. Mr Kim is using the extended mourning period to consolidate control of the government by appointing allies, most of them technocrats, to key positions. Analysts also believe Mr Kim may have decided that a formal transfer of power is inopportune now because of food shortages in North Korea caused by floods last summer. John Burton, Seoul

# Australian telecoms get a wake-up phone call

Competition is still limited but changes are likely to intensify in the next few years, writes Nikki Tait

or Bill and Verna Cocks, it was a brief moment in the spotlight. Sitting on their comfy sofa in suburban Sydney, the elderly coople chatted down a telephone line to John Howard, Australia's prime minister, while 1,000 husiness people listened in.

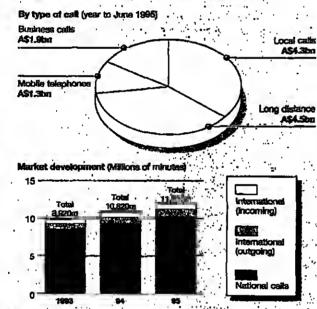
For Australia, it was billed as the start of an era. This was the first phooe call on a network that did not belong to Telstra, the government-owned telecoms giant. Moreover, with Australians already enjoying limited competition in the long-distance and mohile phone markets, Telstra's last area of monopoly - local calls had disappeared.

Or so the hype declared. In reality, Optus Vision, the consortium offering the new local phone service via a cable network, remains coy about the number of households it can connect at present. It says only that its calling covers "aignificant" portions of Sydney and Melhourne, Telstra, not surprisingly, describes the potential service area as "limited".

Even those households which can hook up may be underwhelmed by the savings. The "average Australian", according to Optus Vision, makes about 18-20 local calls a week. Optus is prepared to charge 20 ceots (16 US cents) per (untimed) call against Telstra'a 25 cents, a saving of about A\$1 (US\$3.16) a month. But the local call launch

underlined the changes in Australian telecoms, which are likely to intensify in the next Australia has been edging

towards deregulated telecoms since the early 1990s. Optus Communications - privately owned and the largest partner in the Optus Vision consortium Australian telecoms: getting bigger



was created to compete with Telstra in the long-distance market in 1991. Optus and Britain's Vodafone were then licensed as rivals to Telstra in

the booming cellular market. National administration.

munications minister, says this should mean "a multitude of service providers with equal and non-discriminatory access to carrier facilities" and "contestable market strategies which drive prices down and quality of service up".

But the regulatory frame-work is still being thrashed

These measures were always viewed as a warm-up act. "Full deregulatioo" by July 1997 was the declared aim of the former Labor government - and is the target of the new Liberal-

Senator Richard Alston, com-

out. Whan the new government took over in March, much of Labor's legislative groundwork was re-addressed. Now, the plan is to introduce a bill in the next parliamentary session, which starts in August, and pass it by the end of the year.

A key issua is: How much "industry-specific" regulation is needed and how much can be safely left to the country's hroader competition rules? Telstra, with a strong market position, has tended to argue for the generic competition

model; Optus, which has captured about 15 per cent of the long-distance market, argues the other direction. So far, every indication is that the government will provide some industry-specific rules - at least for the immediate future.

Assuming this, current players see various sensitive areas: One centres on the definition of a "carrier" - which would involve certain responsibilities, including a contribution to the cost of providing a universal service.

■ The degree of discretion left to the Australian Competition and Consumer Commission (ACCC), which will have uitimate responsibility for enforcing the new regime, is another

The basic notion is that the industry itself would develop "access codes", covering interconnection arrangements and the like. But these would be subject to ACCC approval - or intervention if it felt the arrangements were unsuitable. A separate problem perceived by some players is the

time pressure on the government to map out the regulatory framework, so it can proceed with its planned partial urivatisation of Telstra, assuming parliament agrees. "There's aiways the danger of hasty legislation being poor legislation." cautions one service provider. Given these uncertainties, no one is keen to predict how the Australian telecoms market worth around A\$12hn

(U3\$9.5hn) in 1995 - will ultimately develop. The existing carriers, Optus and Telstra, point oot they already face growing competition from "resellers" - such as BT and Telecom Naw Zealand (TCNZ) - especially for large corporate and government customers. Last month, for exampie, AAP Telecommunications won a A\$100m two-year con-tract to manage the South Aus-

But outsiders, such as Telecom New Zealand, predict competition will probably intensify in the international long-distance markets, with less initial activity in the local market. "We wouldn't expect another

national player in the local says Mr Stuart market," Goodin, manager of strategic development for TCNZ. But he does suggest that some niche cable operators running private metropolitan networks could develop. The

idea has already been mooted in New Zealand, which deregulated its telecoms more speedily in the late 1980s.

On prices, there is general agreement the overall direction can only be down. Although

limited competition so far has brought some cuts in charges, Australia has tended to lag industrialised countries generally. A Bureau of Industry Eco-nomics study last year found services charges for business users, for example, fell 8.9 per cent between 1990 and 1994. compared with 15.3 per cent for

OECD countries on average. For international calls, the reduction was 28.4 per cent, compared with the OECD's 34.5 per cent

Only on mobile calls did Australia outperform - with a 26.3 per cent drop against 20.6 per cent. "Telecommunications prices are falling, hut they have further to fall," the hureau concluded hluntly.

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1965=100. Quarterly and monthly data for retail sales and industrial production show the percentage otherwise corresponding period in the previous year, and are positive unless otherwise storad. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

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	Potali salas velumo	Industrial production	(Impop- inycont tota	Vacancy rate indicator	Cooperito Indicator	First Control	industrial production	Linemp- layerent rate	themey total indicator	Composite leading indicator	Please Takes Tolone	induction production	Electrical Spinster	(adjorate, tapa (atmost),	Companie healthy justicalist.
1986	100.0		7.1	100.0	91.3	100.0	100.0	2.6	100.0	76.4	100.0	100.0	7.1	100,0	89.7
1986	105,5	100.9	6.9	98.4	95.5	106.0	99.7	2.8	94.3	83.4	103.4	102.2	6.4	138.9	89.4
1987	108.4	106.0	<b>e</b> .1	104,2	96.7	113.8	103.1	28	106.3	91.1	107.4	102.8	6.2	148.5	90.0
1968	112.5	110.7	5.4	104.9	100.2	122.6	113.1	2.5	135.B	96.7	110.5	108.3	6.2	165.1	95.6
1989	115,4	112.4	5.2	97.8	89.1	132.5	118.7	22	147.0	96.7	114.2	111.4	5.6	218.6	95.6 97.7
1990	116 <i>2</i>	112.4	5.5	82.7	95.5	141.7	124.5	2.1	149.8	95.7	123.5	117.2	4.8	261.9	98.2
1991	113.5	110.4	6.8	61.7	100.2	144.6	126.7	21	144.2	92.7	130.5	117.9	4.2	297.8	95.1
1982	117.2	114.2	7.4	61.8	105.0	139.B	119.0	2.1	124.2	91.6	127.7	118.5	4.6	287.9	200
983	123.4	118,2	6.8	67.7	110.7	131.B	113.e	2.5	106.6	96.8	122.3	109.2	6.1		95.0
1994	130.9	125.1	8.0	79.0	112.8	129.6	114.5	2.9	102.2	104.8	120.4		6.8	229,0	
1995	138.1	129.5	5.5	79.1	1129	128.6	118.5	3.1	106.5	109,4	120.4	113.9 114.2	0.0	240.4 267.8	103.5
and qtr.1995	4.2	3.3	5,6	77.4	111.2	-0.B	4.7	3.1	104.9	108.0		1.7	6.8	276.3	101.7
and optr.1995	4.5	3.0	5.6	78.8	111.0	0.5	1.6	3.2	105.1	107.B		-0.2	wo	265.5	1004
1th qtr.1995	28	1.8	5.5	79.4	112.9	-0.3	1.8	3.3	109.8	109.4		-3.7		258.0	100.7
st qtr.1996	3.7	1.5	5.9	78.1	115.5	5.3	1.2	3.3	110.7	108.8		-2.8		273.8	90.7
ime 1995	4.9	2.8	5.5	76.2	111.2	-0.3	3.5	3.2	104.5	106.0		0.8	6.8	272.2	101.7
July	4.9	2.7	5.9	79.B	111.2	-0.9	2.1	3.2	104.2	106.3		1.0	6.8	270.5	100.0
August	4.5	3.2	5.6	78.9	111.0	0.7	1,1	3.2	105.9	107.0		-0.3	Q.G	264.8	100.9
September	4.2	3.1	5.e	77.8	111.0	1.6	1,7	3.2	105.4	107.8		-1.3		261.3	100A
October	2.1	1.8	5.4	78.B	110.8	-1.1	2.9	3.2	106.0	107.B		-3.3		258.0	100.4
November	3.1	1.7	5.5	76.8	111.8	1.3	1.1	3.4	109.6	108.8		-2.8		261.3	100.5
December	3.5	1.1	5.5	92.5	112.9	-1.1	1.7	3.4	111.2	109.4		-5.0		254.5	100.7
January 1996	2.1	.0.8	5.7	79.5	114.2	5.6	3.0	8.4	110.1	109.0		0.4		264.6	100.7
February	5.3	2.0	5.5	79.5	115.3	4.8	3.3	3.3	114.6	109.1		-6.0		270.5	100.1
March	3.7	1.4	5.0	78.1	115.5	5.3	-2.B	3.1	107.4	108.8		-2.6			88.7
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1985	190.0	100.0	10.3	100.0	89.5	100.6	100.0	3	9.9	88.3	100.0	production	-	Indicator	90.2
1986	102.4	101.1	10.4	107.0	95.e	108.			10.4	94.4	105.3	100.0	11.2	100.0	628
987	104.5	103.1	10.5	117.2	95.4	112.			10.8	96.1		102.5	11.2	116.1	
1988	107.B	107.5	10.0	135.5	100.2	107.			10.8	100.4	110.8	108.5	10.3	141.0	955
999	109.5	111.3	9.4	160.8	99.8	118.9			10.8	98.5	117.8	111.8	8.6	144.0	262
990	110.4	112.8	6.8	163,2	95.1	114.5			10.3		120.1	114.0	7.2	124.3	-946
1991	110.3	111.4	9.4	128.2	96.4	110.5	116.9		9.8	95,2	121.1	113.7	8.9	97.B	92.5
992	110.5	110.0	10.4	109.5	95.0	110.6			3.0	97.4	118,4	109.S	8.8	68.8	25.5

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At series seasonally adjusted. Statistics for Garmany apply only to weetern Garmany. Data supplied by Datastream and WEFA. Retail sales volume: dots from sources except Japan and Raly (volue sense deflated by OECD using CFI) refers to total retail sales except Fronco and Raly (major outlets only) and Lapan (deport) and US (also includes construction industries). Unemployment rate: OECD standardised rate which adjusts as for a speciable for the different defaultions of advertising, Japan — new vecancies, Garmany and France — all pobs vacant, Italy — no dots available, UK — unfilled vacancies. Composite leading Indicators of combination of series, cyclical fluctuations in which sources. Vecanic retains a series of series of series of series of series of series, cyclical fluctuations in which sources of series, cyclical fluctuations in which sources of series of seri

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# Cambodia aid tied to logging pledge

Cambodia's appareot acquiescenca to international donor demands for broader reforms and a more "transparent economy" is likely to earn it pledges of \$1bn in aid this

Aid accounts for about half of all Cambodian government expenditures. At a donor meeting in Tokyo on Thursday, donors will pledge some \$940m after receiving assurances from Cambodia that it is making more transparent its "log-ging activities" and curhing defence spending.

More than \$1.5bn in international aid has been given to Cambodia since a 1991 UN-brokered peace accord led to elections in 1993. Another \$760m has already been pledged over

Representatives of donor countries and aid organisations said Cambodia was likely to get nearly all its requested amount. But the government would be strongly reminded that it would be bound to honour promises made ahead of the meeting if pledges were to be followed through.

"I think they'll get the commitments," said the representative of one leading donor organisation. But the cheques

haven't been written yet." Recently the Cambodian government assured donors that changes would be made to the country's haphazard - and

reckless, say environmentalists - policy of secretly awarding concessions on large amounts of forest land for logging. Last month, doubts about whether revenue from these concesin national accounts led the International Monetary Fund to withhold a scheduled disbursement of \$20m to the Cambodian government. Analysts said this kind of

pressure - temporarily suspending dishursement until policy changes are imple-mented - would become a more common, if unwritten, component of the aid package being discussed this week.

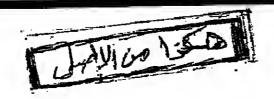
Donors will also be watching to see whether the Cambodian government follows through on two main recommendations: to reduce the amount of military expenditure and to widen its revenue hase. Both these are key issues if Cambodia is to wean itself from dependency

"Defence and security expenditures account for almost 60 sions would be accounted for per cent of all current expendi-

getary targets. This current allocation does not promots economic growth nor enhance social welfare," said the World Bank, one of the sponsors of the Tokyo meeting, in its most recent assessment of the Cambodian economy.

Questions of democracy and human rights will not be on the agenda in Tokyo, but donors are worried about political stability within the often squabbling two-party coalition government. Here Cambodia will also have to follow through on its promises.

"We will tell them we have political stability, are working together...hut we must avoid still having arguments when we come back," first prime ministar Norodom Ranariddh said as he left to attend the



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**FINANCIAL TIMES** 

# **COMPANIES & MARKETS**

OTHE FINANCIAL TIMES LIMITED 1996

Tuesday July 9 1996



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#### **Tele Danmark in** first-half warning

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Tele Danmark, the state. controlled telecommunica tions company, warned that its first-half results would be reduced by a total of about DKr600m (\$102m) compared with the same period last year because of marketing expenditure on cellular phones and price cuts in the Source of Base cellular and international markets. Shares in the

group fell DKr13, or 4 per cent, to DKr285 in Copenbagen. A year ago the group reported first-half profits of DKr2.26bn, Page 16

Burda withdraws Europe Online funding The future of Europe Online, the Luxembourgbased multilingual online service, was in question last night after Burda, the German publishing group which is its largest shareholder, said it was withdrawing funding of the venture. Europe Online said it was holding talks with new potential partners, thought to include CompuServe, the US online group, and was engaged in a major restructuring process". Page 16

National Mutual Life to fix listing timetable National Mutual Life, Australia's second largest life assurance group, confirmed that a decision would be made this month on the timetable for listing its parent company, National Mutual Holdings. The listing is likely to value the holding company at more than A\$2bn (US\$1.58bn). Page 19

Israeli and Jordanian airfines square up The recent opening of air links between Israel and Jordan - a direct result of the 1994 peace treaty .has sparked a price war between the two nations state-owned airlines, Royal Jordanian and El Al. which now must compete for the lucrative longhaul market, Page 19

Tomkins plans acquisitions worth £400m Tomkins, the UK industrial conglomerate, has pledged to use almost £400m (\$624m) cash to make bolt-on acquisitions and develop Gates, the US components group it is acquiring for \$1.37bn. Tomkins reported annual pre-tax profits of £322.9m, up from £303m a year earlier. Page 20; Lex, Page 20

Unigate in £77m maryarines purchase Unigate is paying £77.3m for the European marga-tine and spreads business of Kraft Foods International in an acquisition which will heighten competition in the UK with Unilever, the dominant company in the sector. Page 20

Southern Peru Copper may lift output 70% The US-owned Southern Peru Copper, the country's Peruvian operations. Page 24

Companies in this issue

4 PAO Abbott Laboratories 18 Petrobrás Alestra 4 Republic New York American Airlines 4 Rio Algori Anglo American 18 Roche Avantel 18 Royal Jordanian BCE 18 Sebenzi Banco Bilbao Vizcava Schering-Plough Bancomer 18 Stena RAhier-Licksholm Stratton British Airwaya Sumitomo Comgés Swiss Re Computicket 19 Swissein Dacta Felix TVK Delta Air Lines Tandy 19 Telefonica de Peru EN France Télécom 2 Telefonica int7 18 Telmex GTE 20, 15 Teletra 15 Tesco Harvard Industrial Hyundai Motors 4 Thomson Corporation 20 Thysren Stahl 18 Tomkins Inmet Mining 4 Tveruniversalbank Kie Motors

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20 Unigate

4 Wicken

9 Virgin Atlantic

Chief price changes yesterday

1411 - 54 384.2 - 7.7 726 - 24 35% - 2% 41% - 3% 22% - 1% 3.75 + 0.375 Lanto Convint A 12,88 + 0.6
TF Hingiang 1,41 + 0.07
Fields
Cathay Pac Air 13.9 - 0.7
Tele Broad 25.45 - 1.3
PARAMETRICAL (Backst)
Prince
Lant South 33 + 2.25
Consent indt 23 + 1.5 20.00 + 1.00 13.00 + 1.00 41.95 + 1.95 28.10 - 2.40 Tail Anger 19.25 - 3.26 Util Rain Oil 11.30 - 1.70 Util Rain Oil Falls 7 ar Stor

Sumitomo to take on Star TV network

By William Dawkins

Sumitomo Corporation, the Japanese trading company, is to lannch what it claims will be the world's first quadrilingual televi-sion station, to broadcast Japanese-produced entertainment programmes to 10 Asia-Pacific countries from January.

Jet TV, a 24-hour channel to be based in Singapore under Sumi-tomo management, will compete with Mr Rupert Murdoch's Hong Kong-based Star TV network. Viewers will be able to choose

a choice of four languages for viewers in 10 Asia-Pacific countries

the same as for bilingual Japanese and English programmes broadcast in Japan. Sumitomo's first foray into for-

eign broadcasting is the latest in a long line of Asian diversifications by Japanese trading houses eager to find more profitable ven-tures to add to the low-

from Japanese, Thai, Chinese and English by touching a button on a remote control handset. This is activities.

margin export import businesses pore unit of Sumitomo will own another 5 per cent. The remaining 30 per cent is to be divided

Sumitomo's main partner will be Tele-Communications (TCI), the largest US cable television operator, with which it established Jupiter Programming, an equally-owned programme-buying venture, in February. Jupiter will take a 65 per cent

stake in Jet TV and the Singa-

mercial television stations, which will provide drama, variety shows, cartoons and documenta-Jupiter expects to complete

among Tokyo's five leading com-

Hong Kong, Singapore, Thailand, the Philippines, Malaysia, Indon-esia, Australia, New Zealand and China, via the PanAmSat 2 satelnegotiations on the final distribution of shares, and the terms under which the stations will

Japanese group to launch Singapore-based television station with expand geographical coverage to include TCI's 13m cable subscribers in the US.

The only Japanese television

seen elsewhere in Asia is broad-cast by NHK, the dominant publie broadcasting corporation. Sumitomo believes that Japanese television programmes are of a higher quality than Asian produced output. While that might seem a startling claim to Angle-Saxon aficionados of Japanese game shows, it does suggest potentially lucrative Asian demand for Japanese material Sumitomo has plans for additional channels and hopes to transmitted in local languages.

# Hanson cuts assets by \$5bn to meet US standards

Hanson, the industrial conglomerate, yesterday marked the latest stage of its foor-way demerger by announcing a £3.2bn (\$4.9bn) reduction in assets following accounting changes and write-downs in the value of its US mineral reserves. The write-downs at Peabody, the largest coal producer in the US, and Hanson's Cornerstone aggregates subsidiary will bring

the company into line with US

securities - bonds collateralised by cash flows from underlying

The latest landmark deal is a

FFr40bn (\$7.8bm) issue of asset-

backed floating-rate notes for

Financement et de Restructura

tion), an entity set up by the

French government in November

1995 to administer the financial

support provided by the state to

Crédit Lyonnais, the troubled

French bank, by facilitating the

liquidisation of some of the

The deal, expected to be

launched tomorrow, will be the largest offering to hit the interna-

tional bond markets. This year

has also seen a flurry of issues in

France, Italy, Spain, Germany

and the UK, and more deals are

expected from the Nordic region.

tional credit rating agency which

rates the bulk of European asset-

the first six months of this year,

compared with \$9.9bn for the

driving this trend: the desire by

banks and other financial institu-

tions to lighten their balance

sheets and make better use of

their capital; investors' appetite

for bonds with high credit ratings

and attractive yields; and govern-ments' desire to tap the capital

markets for off-balance-sheet

funding to relieve pressure on

whole of last year.

18

20

Standard & Poor's, the interna-

bank's assets.

accounting standards on the treatment of "long lived assets". Mr Derek Bonham, chief executive, said the move would have no impact on operational cash flow and added: "It in no way reflects on the accuracy of previous accounts."

Some industry analysts, how-ever, suggested Hanson might have overvalued the assets of both Peabody and Cornerstone in the past - a charge rejected by the company. It said the book value reduc-

reduction in future depletion charges and a consequent small increase in profit".

In total, the book value of mineral reserves at Cornerstone have been reduced by £2.3km to £1.3bn and by £500m at Peahody to £1.5bn. A further £300m charge is being made against Peabody's reserves to cover accounting changes over industry liabilities.

Once the demerger is complete, Cornerstone will remain part of

tions would cause "a small the rump Hanson business, while liabilities in future as an annual Peabody will join the Energy Group along with the Eastern regional electricity generator. fee charged against revenue. The black lung fund was set up

in 1977 to compensate miners Mr Bonham said profits at Peasuffering from the illness, while body would fall by about £70m a year following a change in the the AML fund was formed in the same year to meet the cost of reclaiming former mines. way the US company treated coal industry liabilities. As part of the accounting changes, Hanson has removed £1.2bn of its £1.5bn provisions from Peabody's balance sheet

The group - which in 1990 cre-ated £1.5bn of provisions to meet payments to the Federal Coal Industry Black Lung Fund and and plans to charge £300m of Abandoned Mined Land (AML) Fund - said it would treat these previous payments to profit and loss reserves. Mr Bonham said

value of Peabody's coal reserves by £1.5bn.

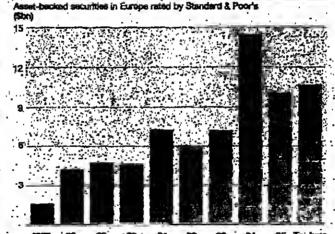
On a pro-forma basis, the com-bined effect of the £70m reduc-tion in profits at Peabody and the new treatment of long lived assets would have reduced Hanson's pre-tax profits last year from £1.28bn to £1.22bn. The long lived asset change had a beneficial effect of £14m. In London, Hanson shares fell

%p to 171%p.

Spate of offerings highlights desire to diversify funding

#### Europeans join A sset eccuritisation, for years a growing business in the US, is starting to take off in Europe, driven by the asset-backed investors' search for yield and issuers' efforts to diversify their A recent sport of offerings has securities club highlighted the growing European interest in asset-backed

The growth of the market



backed securities (ABSs), has rated \$10.6bn of such bonds in from the UK government. "The most exciting trend in Europe is not so much the increasing volume of asset-A combination of factors is backed securities being issued. but the diversity of asset classes being brought to the market," says Ms Kimberly Slawek, cohead of European structured finance at Fitch Investors Service, the US rating agency. "We are being asked to analyse emerging asset classes that have never been securitised before." Institutions can have many

reasons to issue ABSs. Some trea-

More exotic

asset classes

have been

securitised

in the US

surers, for example, may wish to

"We want to reduce our depen-

dency on the Dutch market and

access international investors."

says Mr Matthijs van den Adel, a

managing director at Fortis

Investments, part of Fortis, the

Dutch-Belgian financial group

which this week plans to launch the first guilder-denominated

ABS, F1500m (\$294m) of 10-year fixed-rate bonds backed by resi-

dential mortgages which have been guaranteed by the Dutch

For issuers who have a weak

credit rating or none at all,

launching ABSs, which are usu-

ally structured to obtain a

triple A rating, is a useful way of

securing competitive funding

costs. European financial institu-

tions, faced with stiff competition

in the banking sector, employ

securitisation to make better use

of their capital. They can achieve

this by selling some of the assets

they hold capital against, freeing

capital, why tie it up against a

Sampson, director, structured finance at Standard & Poor's in

"Even if a bank has a lot of

Drecious resources.

government

diversify their funding sources.

their budgets and help them attain the Maastricht criteria for European Monetary Union. Securitisation is a way for financial institutions or companies to remove assets from their balance sheets, freeing capital and diversifying their funding sources. These assets are usually pooled in a bankruptcy-remote vehicle which raises money by selling securities to investors. Principal and interest payments on the securities are funded by

the cash generated by the assets.
ABSs can be collateralised by an increasingly wide range of asset types, including residential and commercial mortgages, coneumer loans, trade receivables. car loans or credit card receivables. More exotic asset classes have been securitised in the US. including health club membership payments and New York taxi medallions - licences enabling their holders to drive a

cab in that city. However, unlike the US, Europe has no natural supply of large, homogeneous pools of securitisable assets, and its ABS market is unlikely to rival that of

the US. What Europe lacks in quantity it makes up in quality, as illus-trated by a series of innovative structures launched this year. They include the Spanish government's securitisation of Pta715bn (\$5.6bn) of so-called nuclear moratorium debt to clear the debts of Spanish electrical companies which arose from the mothballing of nuclear power plants. Also this year, Nomura, the Japanese securities house, used the techmique to fund a £872.5m (\$1bn) acquisition of a passenger rail rolling stock leasing company

London. "Instead, it can get the assets off the balance sheet and redeploy the capital more profit-ably."

Investor demand has been the other crucial impetus behind the market's recent growth. Hunger for yield at a time of declining bond market returns has whetted Ruropean investors' appetite for ABSs, which usually offer an attractive spread over government or corporate bonds.

"The European investor base for asset and mortgage-backed securities has grown exponen-tially in recent years," says Ms Investors who want to boost

their portfolios' returns but don't want to move down the credit spectrum are increasingly looking at asset-backed securi-This demand prompted US credit card issuers Citibank and

Discover to issue D-Mark ABSe backed by credit card receivables originating in the US. More such deals are expected to surface in the D-Mark and sterling markets. As investor demand for ABSs grows, spreads even in this market have come under pressure. This is neatly illustrated by MBNA, the US credit card com pany, which sold \$200m of credit card-backed, floating-rate notes at a spread of 22 basis points over the London interbank offered rate (Libor) in August 1995, followed 10 months later by another

5240m of notes yielding only 12 basis points over Libor. Nevertheless, observers say the market is set to continue growing, spurred by investor demand for high-grads spread product and issuers' desire to diversify their funding methods.

"I am convinced securitisation is here to stay - it's not just a passing fad," says Mr Keith Ballantine, assistant director at Union Bank of Switzerland

"It is set to continue as an increasingly important method of diversifying away from traditional funding sources and will provide a number of benefits to a wide range of European institu-

Thai deal, Page 22 low-yielding asset?" says Mr Kurt Conner Middelmann

# Bermuda businessmen link to fund E Europe groups

provide programme material,

be broadcast to 5m cable and sat-

ellite subscribers, in Taiwan,

Initially, a single channel will

within the next few weeks.

By Vincent Boland in Prague

Mr Viktor Kožený, the émigré Czech businessman, and his Bahamas neighbour and business partner Mr Michael Dingman are to create a joint investment vehicle targeted at east European

Mr Kožený is merging his Harvard Industrial, one of the largest exchange, with Stratton, Mr Dingman's investment company which owns stakes in Czech and Russian companies and oil and gas interests in the United Arab

The new venture, known as Daventree, will have a net worth of \$1.4bm, according to the com-

Harvard and Stratton each own 50 per cent. The venture's assets will include Harvard's large but undisclosed investment portfolio and Stratton's Cyach and Russian stakes, mainly in pulp end paper, utilities, media and shipping.

Mr Dingman yesterday said Daventree would seek stakes of more than 50 per cent in new investments in eastern Europe's

emerging markets, restructure them and either sell them to strategic investors or float them. The targets would include companies with under-exploited assets and those with unique franchises, he

Mr Kožený and Mr Dingman first joined forces in October when Stratton bought stakes in several leading Czech companies in alliance with Harmand Ma Wal eny said the merged group would "secure a substantially greater spread of risk and increase opportunities for joint investing in other countries of eastern Europe".

Daventree, like Stratton, is registered in Cyprus. Mr Dingman said it would be listed in London and New York as the need for fresh capital arose "and the com-

pany develops a track record". Harvard Industrial was created this year through the conversion and merger of six investment funds run by Mr Kožený's asset management company. The new structure avoided the impact of rules requiring greater disclosure requirements for funds that took effect on July 1.



Dingman: joining forces

Harvard has not released details of its portfolio or investment strategy for nearly a year, while the conversion has caused its share price to collapse. This has altenated many investors and drawn fire from analysts who complained about Mr Rožený'e reluctance to release information. Analysts yesterday were cautious about the implications of the new venture for Harvard

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NEWS DIGEST

Italy sells remaining

6.9% holding in Imi

The Italian government's privatisation programme for 1997 remained on course yesterday with the successful sale of the

last of its available shares in Imi, the banking group, for

Imi to domestic and foreign institutions completes lmi's

L501bn (\$327m). The sale of the state's 6.93 per cent stake in

privatisation, which started in February 1994 when 36.5 per

cent of the group's share capital was sold in e public offering

The shares sold yesterday, via lmi and SBC Warburg, were priced at L12,040 each, representing a 2 per cent discount to Friday's closing price of L12,286. Despite difficult market

conditions, following the upset on Wall Street last Friday, Imi

conditions, following the upset on wall street last Friday, Im shares held up well, closing down L226 at L12,060 yesterday. The government is left with a residual 1.1 per cent shareholding in limi, which is set to be distributed next

February in the form of bonus shares to investors who took part in 1994 public offering. The final tranche of Imi shares

comes less than a month after the government sold \$2.1bn worth of bonds which are exchangeable into virtually all of its

34.38 per cent stake in Ina, the insurance company. Mr Mario Draghi, director-general of the Italian Treasury.

yesterday re affirmed that the next stage of the government's privatisation programme would be the autumn sale of a

company. The government has yet to announce how much of Eni's share capital it plans to sell off in October, although it is

widely expected to be 15 per cent, the same percentage which

was sold off last November. However, the rise in Eni's share

government stands to raise L9,060bn from selling a further 15

per cent of Eni, compared with the L6,300hn it raised last

price since flotation means that et current prices the

second tranche of shares in Eni, the energy and chemicals

# Tele Danmark shares slip on profits warning

By Hilary Barnes

Tele Danmark, the statecontrolled telecommunications company, yesterday warned that its first-half results would be hit by marketing expenditure on cellular phones and by price cuts in the cellular and international markets.

Sbares in the group yesterday fell DKr13, or 4 per cent, to

Tele Danmark said rising marketing costs for cellular phone subscriptions and handsets would reduce profits before net financial items by about DKr500m (\$84.9m) compared with the first half of last vear. Price reductions for cellular and interoational calls would cut profits by a further DKr100m, the group said.

A year ago the group reported first half profits of DKr2.26bn, rising to DKr4.31bn

for the full year. It did not market from July 1 this year, specify its forecast for this 18 months ahead of the Euroyear's first half, which will be boosted by the inclusion of profits on the group's 16.5 per cent share in Belgium's Belgacom on a pro rata basis with effect from April 1 this year. Tele Danmark is exposed to

fierce competition in both international traffic and cellu-With the complete liberalisa-

pean Union's date for the completion of telecoms liberalisation, the group is expected to face competition in domestic fixed line voice telephony as

well before long. Tele 3, a subsidiary of Sweden's Kinnevik group, has signed an interconnection agreement with Tele Danmark, enabling it to use the Tele tion of the Danish telecoms Danmark infrastructure to

player which has learned to

live with the competition. That

will not be true for many of

our European competitors," be

gins and slack domestic

growth, he has focused Telia's

strategy on opportunities

abroad. Unisource - a joint

venture with the national oper-

ators of Spain, Switzerland and the Netherlands - has formed

a vehicle to offer data and tele-

coms packages to mainly cor-porate clients in Europe.

The alliance, which collabo

rates with AT&T of the US, is

aiming to develop a national operating presence in the main

European markets - the UK.

Germany, France and Italy -

ahead of liberalisation.

Faced with contracting mar-

market a competing service. Several other operators, including Global One, set up by France Télécom, Deutsche Telekom and Sprint of the US. and Telia, the Swedish stateowned operator, are also interested in entering the Danish

Tele Danmark said cellular subscriptions were up 210,000. or 38 per cent, to 760,000 in the first half of this year, and by 67 per cent since the end of June

last year. All the growth has come in the market for GSM. the international standard for digital cellular telecoms standards. But marketing costs have soared from DKr110m in the first half of 1995 to DKr600mL

There are about 1.2m cellular phone subscribers in Denmark, representing one in four of the population. Tele Danmark claims 60 per cent of the market



Viag seeks US investors Viag, the German industrial conglomerate, bopes to attract US

investors through an American Depositary Receipt programme which the group will launch in August. The ADR programme comes after Mr Georg Obermeler, chief executive, said recently that the Munich based group, which is built around the Bayernwerk electricity utility, had so far failed to excite investors ontside Germany.

In Parally

Viag said yesterday it did not yet know how the issue would be taken up but "would begin testing the waters" in the US in August. An unspecified number of Viag shares are held by London-based investors while "significantly less" are held in New York, the company said. The Viag ADR will be worth one tenth of a Viag share or about \$40 at current share prices. The state government of Bavaria bolds 25.1 per cent in the Munich-based group, a stake which it plans to sell before September 1998 and before the next state elections.

Bayerische Hypobank and Bayerische Vereinsbank, the two eading Bavarian banks, last week raised their stakes in Viag to 10.06 and 10.5 per cent respectively after Isar-Amperwerke, the regional Bavarian ntility which will become a fully-owned Bayernwerk subsidiary, reduced its bolding from 15 to 4.66 per Michael Lindemann, Bonn

Buy-out at Schaffner

Schaffner Electronik, which manufactures filters which limit electrical interference on power lines, has been sold to its local management in a SFr159m (\$126m) deal which is being billed as Switzerland's largest MBO to date, Schaffner Elektronik, which has raised its turnover from SFr20m to SFr130m over the past 10 years, claims to be the world's leading company in Electro Magnetic Compatibility. It employs 1,075 people and has production plants in

Switzerland, Thailand and Ireland. It was put up for sale some months ago by its Swiss parent, Elektrowatt, after it decided to refocus its activities and pull out of electronics. Mr lan Forrest, managing director of HSBC Private Equity, who led the deal, said Switzerland, like many Continental European countries, has been slow to embrace the concept of MBOs because Swiss companies had not been under the same sure to restructure as had UK companies. The total valu of buy-outs in Switzerland last year was \$630m, compared with

Mr Forrest believes this is changing as Swiss companies are forced to adjust to a high exchange rate and divest peripheral businesses so they can concentrate on their core strengths. HSBC Private Equity and Zurmont Finanz, an HSBC affiliate in Switzerland, provided the equity funding and the acquisition debt, understood to be roughly half the SFr159m

purchase price, has been arranged by The Fuji Bank.
The Schaffner buy-out team is led by Mr Alex Oechslin,
chief executive, Mr Richard Muller, sales and marketing, Mr Heinrich Kunz, test equipment director, and Mr Thomas Grichting, components director. All four have been with Schaffner for more than 10 years. William Hall, Zurich

Solvay sees profits holding up

Solvay, the Belgian chemicals group, reiterated yesterday that it expected 1996 profits to match those of 1995 or be slightly higher. "As we said in the June annual meeting, we bope our 1996 results will be near those of 1995, or slightly higher if the European outlook improves in the second half of the year," Mr Daniel Janssen, chairman, told the French business daily, La

The company posted 1995 profits of BFr12.51bn (\$397m), up 57 per cent from the previous year. He said that after a "very bad" December they were seeing regular monthly progress. Mr Janssen said Solvay bad no plans to follow the lead of other chemical and pharmacy groups and demerge any of its activibes. He added that the company "was extremely confident of growth prospects in the pharmaceutical sector." noting thet pharmaceutical research and development had grown to two-thirds of total company spending from 40 per

cent six years ago.

Janssen said the results of the restructuring launched in
1991 had belped the company boost productivity sharply and
the company had sold off a number of non-core assets. "We must continue to dispose of certain assets, while at the same time acquiring small and medium sized companies in sectors in which we wish to grow – notably health, > he was quoted as saying. China, be added, was one of Solvey's priorities for investment in the chemicals field as the company sought to boost turnover quiside Rupper It already heal to the time. boost turnover outside Europe. It already had two joint venture companies in China and three other projects were under negotiation.

#### Poland considers bank sell-off

Poland is considering selling between one-third and one-quarter of the country's largest commercial bank, Bank Handlowy w Warszawie, before it is listed on the Warsaw Stock Exchange, e Handlowy official said yesterday. "The treasury could sell roughly between one-third and one-quarter of Handlowy's shares before it has to give up control of the bank when it enters the bourse, said Mr Slawomir Horbaczewski, director of Handlowy's Capital Markets Centre. He said Bank Handlowy would begin the process of entering

the Warsaw bourse next year and it should take one to three years for it be listed. "Next year we plan to start the procedure of entering the bourse and it should take between one and three years to complete," Mr Horbaczewski said. Barlier Bank Handlowy, which in 1995 had a balance sheet

total of 9.93bn zlotys (\$3.6bn) in 1995, said it was not seeking a strategic investor. After the first five months of 1996 the bank recorded a net profit of 275.5m zlotys, against 421m zlotys for the whole of 1995. Its gross profit last year was 732m zlotya.

#### Valeo sales rise 15%

Valeo, the French automotive components group, saw sales rise 15.7 per cent to FFr15.06bn (\$2.91bn) in the six months to June from a year earlier. It expects net profit for the period to be "of the same order" as the first half of 1995, when it posted net profit of FFr629m. Valeo said it expected sales for the whole of 1996 to rise to FFr28.5bn from FFr25.23bn last year. AFX News, Paris

# Telia awaiting EU deregulation

Swedish telecoms group looks abroad as competition mounts at home

s a state-owned opera-A tor in one of the world's most liberal. ised telecoms markets, Telia of Sweden is something of an anomaly. The former monopoly, which needs substantial investment to meet stiff competition from new rivals, bas long been touted as a candidate for privatisation.

Following full deregulation at the start of 1993. Telia's once-closed market has opened to allcomers. Incursions by companies including British Telecommunications. Deutsche Telekom and France Telecom have led to falling margins at the Swedisb group. Telia has lost a quarter of its

market for international calls and around 7 per cent of long-distance traffic. Only in local calls - where low tariffs make margins unattractive to competitors - has it held its ground.

Mr Lars Berg, Telia chief executive, is reluctant to be drawn into talk of privatisation, insisting it is an ownership matter.

Unofficially, though, management sees flotation as the best answer to Telia's capital - a view unanimously shared by industry observers. "Sweden is a very competitive market by European standards and you usually expect competition and privatisation to go hand in hand," says Mr Douglas Wight, European telecoms analyst at Salomon Brothers in

Telia has demanded a cash injection from the government

of up to SKr10bn (\$1.49bn) over the next five or six years, saying it can no longer fund inter-nally its entire capital requirement of around SKr12bn a

"Our equity ratio is only 32 per cent and we think that in this new and more turbulent world we need a stronger balance sheet." Mr Berg says.

He can expect few favours. Last year the Swedish company was forced to share with France Télécom a SKr12bn contract for telephony services to central and local government. A state memorandum last month did contain a commitment to new, unspecified, fund-ing, but the Social Democratic administration appears to have baulked at any sell-off. "Privatisation is not politically achievable in the current climate," one government official

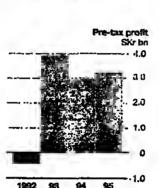
says.

Denied free access to most European markets and unable

to raise capital independently. Telia's hands are tied. It has sought to compensate by dou-bling prices for local calls since 1993, but this has been more than offset by e 50 per cent fall in tariffs for long-distance calls. Pre-tax profits were SKr3.23bn in 1995, against SKr2.95bn in 1994. However operating income fell from SKr13.2bn to SKr12.8bn

For Mr Berg, the deregulation of European telecoms markets in 1998 cannot come soon enough. Since arriving from telecommunications equipment group Ericsson two years ago, he has worked to orient Telia towards a commercial market. The workforce has been cut by more than a quarter since 1991, from 46,000 to 33,000, as part of what Mr Berg terms his "cultural revolu-

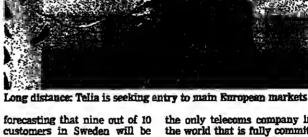
We are under a great strain but hopefully this will mean that after 1998, we will come



In addition, Telia bas licences for fixed telephony services in the UK, and has established or planned operations in Norway, Denmark, Finland, Ireland, Poland, Estonia, Latvia and Lithuania.

On the mobile side, it has a presence in countries as far-flung as Sri Lanka and Mr Berg's bope is that for-eign growth and the booming mobile sector will plug the gap from the Swedish fixed market. Cellular revenues now account for 25 per cent of turnover and aggressive marketing bas belped Telia retain a 70 per cent market share, despite the challenge of three other mobile

Mr Berg predicts continued



mobile users by 2001. He also has high hopes for Telia's drive to deliver broadband services to all Swedish households by 2004 using asymmetric digital subscriber line (ADSL) technology.

Mr Berg sees a "superinter-net" comprising digital TV, interactive entertainment and electronic shopping. The network, undergoing trials in Stockholm, is likely to cost in excess of SKr25bn to build. However, the initiative has robust growth in this sector, raised some eyebrows. "Telia is

the only telecoms company in the world that is fully commit-ted to ADSL," one Londonbased analyst says. You could say that they are looking to the future but the research is showing that the

investment is marginal because people don't pay enough for the service." Mr Berg brushes off the objections. In the competitive world of tele- and data commu-

nications, he knows that if Telia does not take the plunge, a rival company will.

Greg McIvor

# Burda withdrawal puts Europe Online future in jeopardy

By Neil Buckley In Brussels and Simon Grav

The future of Europe Online, the multilingual online service. was in question last night after Burda, the German publishing group which is its largest shareholder, said it was withdrawing from funding the

The Luxembourg-based company said it was bolding talks at an "intensive level" with new potential partners, thought to include Compu-

mvoire changes shareholding structure.

it refused to comment on reports that it would today seek to appoint an administrator in the Luxembourg Commercial Court.

Burda said it had decided to "change its online portfolio", and concentrate on Internet content production, particularly in the German market. and therefore decided to stop current financing of Europe

ancing to date.

Europe Online said Burda, which holds a 26 per cent stake, plus another 7 per cent in trust, had made "no decision" on the future of its sharebolding.

"We are trying on a more intensive level to conclude negotiations with a new part-ner." Europe Online said. Europe Online, in which Pearson owner of the Financial Times, bas a stake, aimed

serve, with a range of informa tion and entertainment services in the main European languages. But it has had a troubled history. It made a significant shift in

strategy only months before its mucb-delayed launch last December from being a "closed" subscriber system with a contract already signed to use the Interchange software of AT&T, one of its shareholders - to an open domain

leading sharebolder. France's Matra Hachette, and its then chief executive, Mr Christian Bruck.

But the Luxembourg service said yesterday it had 25,000 paying subscribers - who gain the right to a "home page" on the service, and was achieving 450,000 Internet "hits" s

Services have already been launched in German, French, English and Luxembourgois.

Serve. the US online group, and was engaged in a "major restructuring process" which about DM30m (\$19.6m) in finshareholders are said to be the Luxembonrg state-owned banks SNCI and BCEE with 10 per cent, Pearson with less than 10 per cent, AT&T, Meigher Communications, and several small Luxembourg

> Although no figures have been released, losses at Europe Online are thought to have reached LFr592m (\$18.8m) last year, after start-up costs, from LFr40m in 1994.

> > 6 June 1996

This unnouncement appears as a matter of record only 21 May 1996 City of Stockholm US\$300,000,000 Syndicated Stand-by Facility Arranged by: Credit Suisse Co.Arrangers: ABN AMRO Bank N.V. Deutsche Bank Luxembourg S.A. Enskilda

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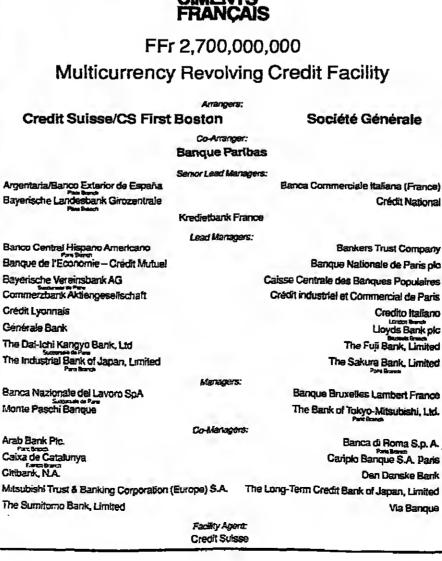
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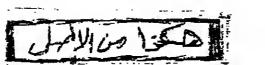
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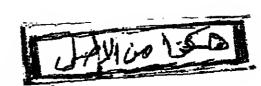
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FINANCIAL TIMES TUESDAY JULY 9 1996

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In Europe, no one carries more weight in the world financial market than the new Chase client.

Banking, at its essence, is about a total commitment to anticipating and serving client needs. That's exactly what the new Chase is about-combining the strengths of two institutions that in all their years of existence have had a history that revolves around client relationships. And now that we're bigger and stronger, we want to make sure you know that we will leverage our global strengths and leadership positions across a breadth of global products to focus more on our clients than ever before.

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**NEWS DIGEST** 

Long-delayed plans to build a pipeline to carry natural gas from Boilvia to Brazil bave moved forward following an agreement between Petrobras, Brazil's government-controlled oil company, and Comgás, the São Paulo state gas distributor,

The agreement follows talks between presidents Fernando Henrique Cardoso of Brazil and Gonzalo Sanches de Lozada of Bolivia at which the two leaders agreed to give the

charges that Comgás and other state distributors in south-eastern Brazil will nav to Petrobras, and should help Petrobrás to raise finance for construction of the pipeline, budgeted

A formal contract is expected to be signed within the next month. Under the deal, Comgás will pay for 55 per cent of the supply of gas guaranteed by Petrobrás, whether it uses it or not, rising to 95 per cent after 10 years. Petrobrás originally demanded payment for 100 per cent of capacity.

But Petrobrás has beld firm on price: Comgás will pay \$2.60 per million BTUs (British thermal units) for gas from Bolivia, compared with about \$2.37 per million BTUs for Brazilian natural gas.

This should make it easier for distributors in other states to reach similar accords," said Ms Iêda Corrêa Gomes, president of Comgas. The company expects to buy half the gas supplied by the pipeline, scheduled to enter operation at the end of 1998 delivering 8m cubic metres a day, rising to 16m cubic metres a day.

Mr Antônio Luiz Menezes, a director at Petrobrás responsible for the pipeline, said the deal would help efforts to raise finance for the project.

"This makes the pipeline all the more viable and will certainly help in our talks with the banks," he said: However, analysts said doubts remain about pricing levels.

"The price of natural gas is tied to fuel prices that are 20 per cent above international averages," said Ms Ana Cequeira of Brazilian investment bank Icatu. "It is hard to see how you can raise finance for a project based

on unreal prices in an opening market."

According to an agreement signed by Brazil and Bolivia in 1993, a financial package for the pipeline should have been agreed by August 1994. Mr Francisco Moura of Brazil's foreign ministry said the two presidents discussed the pipeline at a meeting in late June and agreed that the framework for a financial package would be

established by August 17. "Nothing was put on paper, but they agreed to add a political impetus at the highest level," he said.

in profits

Tandy warns

of heavy fall

Shares in Tandy, the US consumer electronics retailer, fell \$3% to \$41% in early trad-

ing yesterday after the com-

pany warned profits would be

heavily down in the second quarter to June, even exch-

ding a restructuring charge.
It blamed the fall on weak

revenues, saying sales at stores that had been open a

year or more were 2 per cent

lower in June than they were

a year earlier. Tandy has about 6,800 Radio

Shack stores selling electronic

goods, 103 Computer City stores selling personal com-puters and 16 Incredible Uni-

verse superstores selling com-

puter, audio and video

In last year's second quarter

it made net profits of \$38m, or

55 cents a share. Analysts had

been looking for 50 cents a

However, in May, Tandy

warned it would take a

restructuring charge of \$25.5m

before tax, or 26 cents a share,

in the second quarter to cover

the cost of streamlining the

Incredible Universe division,

including the closure of two

stores. Yesterday the company said

that second quarter earnings

would be 30 per cent below

those for the comparable

period, excluding the restruct-

uring charge, because sales had fallen below budget.

share in the latest quarter.

# Cost-cutting set to benefit Bell Canada

BCE, Canada's biggest telecommunications group, says its Bell Canada telephone utility should earn C\$950m (U\$\$694m) in 1997 on revenues of C\$9.5bn, benefiting from a tough cost-cutting programme to reduce its overall payroli by 10,000 by the end of 1998. BCE, in a regulatory filing, said most of the financial turnround will come from restructuring rather than local service rate increases granted for 1996-97.

Bell Canada earned C\$502m for a rate of return of 6.7 per cent in 1995. The projected rate of return for 1997 is 12.9 per cent, or around historical levels. Bell has been subject to beavy long distance competition and price-cutting and the upsurge in earnings will have an impact on BCE directly, as Bell Canada is a 100 per cent-owned subsidiary.

Canadian M&A deals still high

Robert Gibbens, Montreal

Canadian mergers and acquisitions totalled 271 deals worth C\$13.2bn in the second quarter, against 230 deals worth C\$33bn a year earlier, according to Crosble, the Toronto merchant bankers. The 1996 period included Seagram's divestment of almost 25 per cent of Du Pont and the acquisition of MCA. First-half deals totalled 520, worth almost C\$35bn, against 450 worth C\$3.3bm a year earlier. The continuing high level of deals is attributed to globalisation, fast-changing technology and lower interest rates.

Robert Gibber

#### BBV seeks Peru telecoms stake

Banco Bilbao Vizcaya, the Spanish bank, plans to invest Ptal0bn (\$78m) to acquire "at least" a 1.5 per cent stake in Telefonica de España's unit Telefonica del Peru, according to reports citing BBV managing director, Mr Javier Echenique. The acquisition comes within the framework of BBV's new strategy aimed at diversifying its foreign activity in those countries where it already has a banking network. BBV operates in the Peruvian market through its unit Banco

#### Schering Plough cancer move

Schering Plough of the US has received patent protection from both US and European patent offices for the use of its p63 gene therapy in the treatment of cancer. Schering Plough is developing new cancer treatments based on its unit Canji's proprietary scientific discoveries with p53 gene therapy technology. Schering-Plough said it expects to begin clinical trials of p53 gene therapy this year.

#### **Rio Algom in Antamina bid**

Rio Algom and Immet Mining, the Canadian mining groups; said they had submitted a joint bid to CEPRI-Centromin Peru in a public auction for the Antamina property in Peru. They said the winning bid would be announced after all the bids were opened and made public on July 12. Rio Algom and Immet participated equally in the sealed bid, they said.

The Antanina property, located 482 km north of Lima, hosts a partially-defined copper/zinc deposit with proven and probable reserves of 128.6m tonnes grading 1.61 per cent. copper, 1.83 per cent zinc, 17.7 g/t silver and 0.04 per cent molybdenum with upside potential. Further drilling is needed to define the potential of the ore body, which is open in several directions, Rio Algora said.

# Alestra still waiting to make connection

An alliance to compete with Telmex is stuck in the formative stage, says Daniel Dombey

he formation earlier this year of a new company to take advantage of the liberalisation of Mexican telecoms must have worried executives at Teléfonos de México

The newcomers - which include AT&T, GTE and Telefónica Internacional of Spain -promised that their fledgling company, Alestra, would give the established carrier formida ble competition when it lost its long-distance monopoly this

Moreover, they said, all of the services provided by Ales-tra would be marketed under the AT&T name, which compares well with Telmex's mixed reputation.

Two months on, despite a massive advertising offensive by Alestra, the picture is a little different.

The new alliance's legal status has yet to evolve beyond a letter of understanding and the company has been relatively slow in building infrastructure. However, Alestra's bosses are confident that consumers will wait for its services to be

"We represent the highest quality brand in world tele-communications," says Mr Jorge Escalona, Alestra's chief executive, "We are not going to put our quality at risk to be ready [earlier]." Some of the problems of pre-

paring for competition are due to the company's intricate Alestra matched up AT&T and Grupo Alfa, a Mexican con-

In April, it was announced that the group would be joined by GTE, the US local telephone services provider, and Ban-comer Visa, which controls Mexico's second largest bank. Together, GTE and Bancomer prospective long-distance

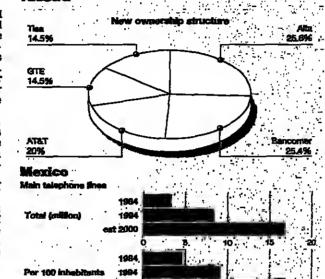
Telefónica Internacional, which had announced its intention to join Unicom some months before, also formed a further part of the new alli-

"Many different sectors of telecommunications were coming up for liberalisation," says Mr Rodrigo Guerra, head of AT&T-Mexico. "In order to be present in all those different sectors, we decided to combine the efforts of the two groups,"

The country's devaluationinspired recession was also a reason to rationalise

To date, however, the alliance has meant little more than the transfer of some 50 of Unicom's employees to Alestra. The two companies are still formally separate, with negotiations having been compli-cated by the increasing number of partners.

Mr Peter Hntchison, the head of telecommunications at Alfa, has promised that a final agreement will be in place before competition formally begins in mid-August. In the meantime, investments are



being shouldered by Alfa and "I would not be surmrised if things did not work out. These

are pretty strange bedfellows, says Mr Patrick Jurczak, head of Latin American research at Nomura Securities in New York "But an AT&T and Telefónica Internacional alignment would be very powerful if it went ahead."

When the alliance was announced, the companies committed themselves to investing \$1bn in the long-distance sector and \$1bn in other areas, such as cellular and local services for corporate clients. An element of doubt will remain over the investment plans until the merger is made concrete, Alestra has built only a quar-

ter of the 4,600km fibre optic network it wants in place for the opening of the long-distance market. Its competitor Avantel, a joint venture between MCI and Banamex. Mexico's largest bank, has all but finished its own, similar

Continental

Airlines, Inc.

The Conversion Price of the Notes into Continental Airlines, Inc. Class B Common Stock, per value

U.S. \$.01 per share, will be adusted

to U.S. \$30.195 per share effective

at the opening of business on 3rd

9th July, 1996

tes due 15th April, 2006

network, and from mid-August will be able to install dedicated lines. Alestra's capacity to do so will be much less. However, the gradual nature

of telecoms liberalisation mitiates Avantel's head-start. For all but wealthy corporate clients, the installation of separate lines offered by an independent network are too

Also, although Telmex loses its long-distance monopoly on August 11, it will not be until next January 1 that its new competitors will be able to pass long-distance calls through its local network.

Iona, customers will be willing to wait for Alestra, even if that means switching from another of the new carriers. Many people, he thinks, will be swayed by name recognition of AT&T.

The company's services such as virtual private networks. Internet access and calling cards - are also likely to be promoted through Alestra's network of associated groups, which not only include Bancomer, but also feature leading brewerles and soft drink fran-

Such exposure could compensate for slowness in building infrastructure this year. The company certainly hopes so. "I think it is great if our competitors really believe that we will not be ready for competition on January 1 1997," Mr Escalona says. "Terrific."

# Hungarian share issue well received

chemical producer, has revealed the growing appeal of central European equities to mainstream as well as special-ist western investment funds. The TVK offer to foreign and

Hungarian institutions, which was lead-managed by CS First Boston and closed on Friday, was more than six times oversubscribed and elicited gross demand for \$650m worth of APV RT, the Hungarian pri-

vatisation authority, has increased the size of the institutional tranche from 10.5m shares to a maximum of 17m, equal to 71 per cent of the for-merly state-owned company.

At the price of \$8.81 a share has lifted Hungarian, Polish range of investors manifested offering to emerge from eastern Europe after that of Mol. the Hungarian oil producer.

A further 10 per cent of TVK is allocated to employees, and 2.5-5 per cent will be offered to the Hungarian public from July 16. This could add a further \$30m to the offer size, giv-ing a total of \$180m.

Most privatisations in eastern Europe have occured through the almost free distribution of shares to the public. management buy-outs or trade sales to western industrial companies in the same sector. But the return, after the Mexican financial crisis, of western investors to emerging markets equity offerings.

The Mol deal in November 1995 was cut back due to lack-

lustre demand, but a recent

offering by Coffnec, a central European packaging company, garnered gross demand of 90m, a record for the region. While earlier equity issues were taken up predominantly by investment funds dedicated to the region, and in 1994 by

speculating hedge funds, Cofinec and now TVK have attracted a wider range of

CS First Boston said the maturity of the central European equity markets was reflected in the "ever-growing"

set at the weekend, the trans- and Czech stockmarkets in by the TVK transaction. It is Heavy demand for a share action is valued at \$150m, make 1996, and improved the climate understood the investors in issue by TVK, the Hungarian ing TVK the largest equity for privatisations through TVK include mainstream US and UK pension and mutual

TVK has also attracted institutions which invest in privatising state-owned companies Privatisation funds, such as those run by Kleinwort Benson Asset Management and Mer-cury Asset Management, had previously focused on western European privatisation offer-

The depth of western demand for east European shares will be tested in the public offering of KGHM, in which \$500m of shares - about 25 per cent of the Polish copper western institutions.

5½ Per Cent Convertible Subordinated Debentures Due 2002 of Chiron Corporation

CHIRON CORPORATION Notice to Holders of Bearer Securities

Holders of 5: Per Cent Convertible Subordinated Debentures (the Debentures 1) Due 2002 of Chiron Corporation, a Delaware corporation (the "Company"). ("Bearer Securities" as defined in the indenture dated as of May 21, 1987 between Cetus Corporation and Baukers Trust Company, Trustee (the "Trustee"), as smended by the First Supplemental Indenture dated as of December 12, 1991 among the Company, Cetus Corporation and the Trustee (the "Indenture") are bereby notified pursuant to Section 105 and Section 806 of the Indenture that the Indenture has been amended by the Second Supplemental Indenture doied as of Morch 25, 1996 among the Company, Cetus Uncology Corporation (formerly Cetus Corporation) and the Trustee (the "Second Supplemental Indenture").

The Second Supplemental Indenture revises the language of the Indenture to remove references to Cetus Corporation which merged with and into the Company and the Company succeeded to all of the rights and obligations of Cetus Corporation under the Indenture.

In addition, holders of Beaver Securities are hereby notified pursuant to Section 1206(a) of the Second Supplemental Indenture that the Board of Directors of the Company declared o 4-for-1 stock split effected in the form of a dividend on the Company's Common Stock to be distributed on August 2, 1996 to stockholders of record on July 19, 1996 (the "Record Date"), Stockholders will receive three additional shares of Chiron Common Stock for each share of Common Stock owned on the

In accordance with Section 1204(1)(i) of the Second Supplemental Indenture, a dividend payable in Common Stock adjusts the Conversion Price (as defined in the Indenture) of the Debentures effective at the opening of husiness on the day following the Record Date. The Conversion Price in effect immediately prior to the declaration of the dividend was \$123, 33 per share of Common Stock. As of the opening of husiness on July 22, 1996, the adjusted Conversion Price for the Pelentures will be \$30,83. NO ACTION IS NECESSARY ON THE PART OF THE HOLDERS OF BEARER SECURITIES. Please contact any of the

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By: Morgan Guaranty Trust Company of New York
as Principal Paying Agent Dated: July 9, 1996

BPB industries pic

(the "Company")

£64,000,000 7.25 per cent Convertible Subordinated Bonds 2008 (the "Bonds")

PROPOSED ENTRY OF THE BONDS INTO THE LONDON SECURITIES MARKET'S NEW PAPERLESS SETTLEMENT SYSTEM ("CREST")

The Board of Directors of the Company final, on 26 June 1936, resolved, subject to The Law Debenture Trust Corporation p.t.c. (as Trustee of the Sonds, the "Trustee") approving necessary changes to the trust deed dated 17 March 1963 between the Company and the Trustee whereby the Bonds were created (the "Trust Dead"), and subject to CRESTCo Limited (as Operator of the CREST system) permitting the Bonds to become a participating security in accordance with end as defined at the Uncertificated Securities Regulations 1995 (the "Regulations"), to permit the holding of the Bonds in uncertificated form and the trensfer of title to the Bonds by means of a relevant system (as defined in the Regulations), including the CREST system.

Notice is hereby given in accordance with the provisions of the Trust Deed that it is proposed that the Company and the Trustee (in exercise of the Trustee's powers under the Trust Deed) shall enter into a supplemental deed for the purpose of effecting amendments to the Trust Deed to allow; (a) the holding of little to the Bonds in uncertificated form; (b) the transfer of tible to the Bonds by means of a relevant system.

The amendments to be contained in the supplemental dead will become effective immediately before the date on which the Bonds become a paracopating security in CREST (provisionally allocated by CRESTCo Limited as 33 September 1996).

CREST is a voluntary system and holders of Bonds who wish to retain their Bonds in certificated form can do so and effect transfers of certificated Bonds in accordance with the existing provisions of the Trust Deed.

#### LEGAL NOTICE

In the High Court of Justice Chancery Divinion, Companies Court In the santter of Flut Auto (UE) Limited

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NOTICE IS HEREBY GIVEN that the Order of
the Bigh Court of Laptor (Chaptery Division)
deed 3rd John 1996 confirming the reduction of deted 3rd Joby 1996 confirming the reduces of the capital of the above-sumed Company from £50,000,000 to £10,000,000 and the rauses approved by the Cases showing with respect to the capital of the Company so shered the necessity particulars regarded by the shows extensioned Act were registered by the forgatter of Companies on 5th July 1996.

DATED and the Companies of Companies on DATED and the capital of the Companies of Companies of St. July 1996.

DATED THE WEIGHT DAY IN PARTY.
Gentler Leves Manning, 6th Floor, Thevies less
House, 3-4 Holborn Custon, London ECIN 2HL,
Solutions for the above-matted Company

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USSE0,000,000 4 per cent. Bords due 2006
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Company Limited as Trustee, relating to the issuance by the
Company of USSE0,000,000 aggregate principal amount of 4 per
cent. Bonds due 2006 (the "Bonds"), we hereby notify you that
the newly adjusted Conversion Price of NTS29 per share will take
effect on June 30, 1996, the ex-dividend data. This adjustment is
based on the declaration of 155,679,586 shares in the form of the
spok dividends of 1995. These stock dividends are included by the appropriation of the unappropriated earnings in 1995 in the amount of NT\$518,531,652 and the company's capital surplus in the amount of NT\$1,037,864,908. The total amount is NT\$1,556,795,800.

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# Böhler and Thyssen in welding venture

By William Hall in Zurich

Böhler-Uddeholm, the Austrian specialty steel producer, and Thyssen Stahl, the German steel maker, ars combining their welding operations in a new venture which will create a powerful European force in the world market for welding

The two companies announced yesterday they had signed a letter of intent to put their welding operations, Böh-ler Schweisstechnik and Thyssen Schweisstechnik, into a new 50:50 joint venture, Böhler Thyssen Schweisstechnik.

The businesses are roughly the same size, employing about 1,100 people each, and have a combined turnover of about Sch3.8bn (\$358m).

after Sweden's ESAB, France's

Air Liquide and Japan's Kobe. Mr Claus Raidl, Böhler-Uddeholm's chief executive, said that "the welding industry worldwide has experienced sig-nificant consolidation through mergers and joint ventures resulting in fewer but larger global competitors". Although the two companies

have complementary product ranges, the combined operation is expected to produce about Schl40m in cost savings. Böb-ler has welding material plants in Germany, Austria. Mexico. the US and Brazil, while Thyssen's production is centred on Germany and Belgium.

Both groups produce stick electrodes, wire electrodes, filler wire and welding powder. The principal consumers are the heavy engineering, auto-The new company will probably rank fourth in the world tries. Böhler-Uddeholm estimates that the total world

market for welding products is Sch65bn, half in east Asia. Although the market for stick electrodes is declining, the demand for wire electrodes is increasing and the new ven-

ture hopes to capitalise on Böbler-Uddeholm's strength in the high alloyed welding elec-trodes segment, where it has about 25 per cent of the world The joint venture comes into operation on October 1, pro-

vided it has received the necessary antitrust approvals.

The venture is the latest sign

of the considerable restructur-ing that has been taking place at Böhler-Uddeholm, which was privatised just over a year ago. After several years of losses, the group moved into the black in 1994, and increased its profit on ordinary activities by 163 per cent to

The shares, floated at Sch550 in March 1995, closed Sch1.5 lower at Sch302 yesterday. Siemens, the German electronics group, and Sommer-Allibert Industrie, a car components company, have formed a joint venture specialising in

specialist car components, such as dashboards, AFX reports from Regensburg, Ger-many. The partners will own equal stakes in SAS-Autosys-temtechnik, which will have an initial capitalisation of DM16m (\$10.5m).
The joint venture must still

be approved by the European antitrust authorities. Siemens' automotive system group had sales of DM3.2bn in the year to September 1995. Sommer-Allibert recorded annual sales of about DM2bm in the automobile supply business and plans to increase the total to about DM3bn by 1998.

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#### COMPANIES AND FINANCE: ASIA-PACIFIC/INTL

# National Mutual Life at A\$348m

By Nikki Tait in Sydney

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National Mntual Life, Australia's second-largest life office, yesterday announced an after-tax profit of A\$348m (US\$275m) for the six months to end-March

The company, which is controlled by France's Aza group, confirmed that it would make a decision this month on the timetable for listing its parent company, National Mutual Holdings, on the stock market. The first possible date would be September this year, with the next likely opportunity in

The listing will be the final stage in National Mutual's damutualisation process.

Policyholders have endorsed the hand-over in ownership from themselves to shareholders, and the associated injection of funds from Ara last year. The listing is likely to value the holding company at more than A\$2bn. The insurer has said that it will occur by September 1997 at the latest.

Last September NML sold a number of its subsidiaries to NMH for A\$1.36bn, and received a further A\$200m cash injection. Under the reorganised group structure, it has become the largest of NMH's subsidiaries.

The restructuring makes comparisons between these latest results and their predecessors difficult. But the group said that premium income in the first half of A\$1.12bn com-pared with A\$2.62bn in the year to end-September. It conceded that premiums appeared to be heading lower, but said there was a seasonal weighting towards the second half. Policy payments, meanwhile, were A\$1.37bn, against A\$2.99bn for the last full year, but these are

Investment income rose strongly to A\$718m, compared with A\$1.15hn in the last full year, helped by the cash injec-tion. Nevertheless, NML warned that "markets had not progressed to the same degree since the end of March' and added that it "could not look at anything like the first half

also seasonal.

months.

Management axpenses, meanwhile, fell to A\$233m, against A\$542m in the 1994/95 full year. But Mr Tony Killen, NML's managing director, said that he still saw scope for more

savings.

The latest result also benefited from a one-off adjustment: A\$28m was added as a result of a restatement of liabilities, compared with an A\$38m charge in the year to September 1995. However, with these items included, NML said that, in effect, A\$226m of the A\$348m net profit represented benefits for policyholders, and A\$122m the return to its parent

## Hot tickets help agency to improve its performance

South Africa is possibly the only place in the world where you can buy

1995, when South Africa hosted the Rugby World Cup.

At R2m (US\$460,000) last a ticket for any cinema, thea-tre or sporting event anywhere in the country from a kiosk in

This is due in part to the country's past isolation — which barred competing film distribution networks from controlling the higgest cinema chains - and in part to Compu-ticket, the reservation agency which since its inception in 1971 has tied up ticketing deals with almost every cinema, theatre and sports stadium. Computicket is now re-

engineering its husiness to exploit the full value of its online, real-time electronic data network. According to Mr Graeme Victor, a management consultant who succeeded theatre aficionado Mr Percy Tucker, the company's founder, as managing director in 1994. Computicket's days as a ticket agency focusing exclusively on entertainment are over. Its data network is the envy of retail banks, travel agents, betting shops and many other retailers, he says.

Today we are open to anyone who wants us to handle money

exclusive contracts." The political transition has brought an influx of foreign artists, from Pavarotti to the Rolling Stones, to perform in South Africa. The resulting surge in Computicket'e income array of new projects. The group, a wholly-owned subsidiary of the Interleisure group formerly controlled by hotel magnate Mr Sol Kerzner, saw revenue rise 22 per cent and operating profit before abnor-mal items more than double in

for them. We will not sign

year, the pre-tax profit remains small. Computicket's average margin on ticket sales, worth R250m in 1995, is between 5 and 10 per cent, generating a turnover of R20m. But the potential is huge. Two years ago, the company posted losses of R300,000; today it is plough-ing most of the gains from a 25

Mark Ashurst reports on a South African ticket business's plans to revamp its systems and distribution network

per cent increase in turnover into new software to make its network compatible with others worldwide,

It recently launched the world's first network of self-service cinema ticket dispensers in a joint venture with First National Bank. The new machines, based on a standard PC-based Siemens Nixdorf cash dispenser, enable cinema-goers to buy tickets for 490 cinemas in a single transaction using bank or credit cards. In future they will be able to preview films on touch-sensitive

If the five pilot machines shopping malls and health clubs prove popular, the ser-vice will be extended to other entertainment, notably the lucrative sports market. "The same technology is used extensively in the UK and Europe, but it has never before been

possible to link into a national reservation network," says Mr Dirk Coetzee, head of development at Siemans Nixdorf About 400 units will be distributed nationally within five

years - almost a fourfold

increase in Compaticket's 110 points of sale. Computicket's amhitions highlight the rapid growth of information technology in the highly polarised South African economy. Retailers hope electronic payment systems will help integrate the relatively sophisticated, mainly white formal sector with the predom-inantly black informal economy, where development is frustrated by a high crime rate and largely underdeveloped infrastructure. "Our long-term goal is to bring a majority of the population into the formal

banking sector," says Mr Mike Jarvis, general manager of information technology at First

National Bank. At least 70 per cent of South Africans do not have bank or credit cards, so Computicket's dream of handling only elec-tronic payments remains remote. Meanwhile, it offers many businesses a convenient alternative to receiving over the counter payments on their own premises. We offer an online receipting system so we can reconcile the payments received and hand over the money the next day if neces sary. We take all the risks of credit card fraud and crime

lets," Mr Victor says. His sights are now set on the travel industry, where reserving game lodges, self-catering units, holiday flats and caravan parks can be fraught with bureaucratic hurdles for the ordinary leisure traveller.

#### Jordanian and El Al lock horns

By Yarostav Trofimov

The recent opening of air links between Israel and Jordan - a direct result of the 1994 peace treaty - has sparked a price war between the two nations' state-owned flag carriers, the incrative long-haul

market Royal Jordanian, which began flying to Tel Aviv in April is exploiting its advan-tage on routes to east Asia. Jordanian aircraft - unlike those of Israel's El Al - are permitted to fly over Saudi Arabia, rather than around it, cutting flight times to India and the Pacific Rim by as much as half.

Ms Dvora Bruchstein, manager of Jordanian's general sales agency in Israel, claimed that up to 40 per cent of the passengers aboard her company's Tel Aviv-Amman flights were using the Jordanian capt tal as a transit point on their

way to Asia.

But El Al, which inaugurated its own Tel Aviv-Amman service last month, denies that its 50,000-passengers-a-year east Asia operation has suf-fered as a result of competition from Jordan. The Israeli carrier is trying

to exploit its own advantage on popular routes to the US, by marketing in Jordan chesp connecting flights to New York or Los Angeles via Tel

Analysts warn that this effort may be doomed, as Jordanians are unlikely to want to go through israel's exhausting airport security and visa slightly cheaper fare.

July 1996

All of these securities having been sold, this announcement appears as a matter of record only.

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Tomkins, the Industrial conglomerate, has pledged to use almost £400m (\$624m) cash to make holt-on acquisitions and develop Gates, the US compooents group it is acquiring for \$1.37bn.

The company - which yesterday reported pre-tax profits of £322.9m (£303m) oo reduced sales of £3.6bn (£3.73bn) for the year to April 27 - said it was considering acquisitions in each of its six divisions and was keen to increase Gates's

Low & Bonar, one of Britain's

leading packaging groups, yes-

terday reported a 6 per ceot increase in first-half profits

despite difficult trading coodi-

tions and volatile raw material

The company, whose manu-

factures cartons, plastic bags, mouldings and floorcoverings,

saw pre-tax profits increase

from £24.8m to £26.2m (\$40.9m)

on reduced sales of £211m (£218.9m) in the six months to

Mr Jim Heilig, chief execu-tive, said it was a pleasing per-

formance given the fall in raw

material prices, which account

for more than 50 per cent of

Low & Bonar's costs in some

product areas. He blamed fall-

ing prices for polyethylene and

polypropylene - two of the bulk commodities used widely

by the company - for the

reduced sales as it passed on

lower charges to customers.

RESULTS

Low rises 6% in

'tough' first half

Once the all-paper acquisi-tion has been completed, Gates sbould become Tomkins's largest division by sales volume and will significantly increase the proportion of profits made in North America

Mr Greg Hutchings, chairman, said Tomkins was determined to improve last year's 7.4 per cent operating margins at Gates, which reported underlying operating profits of £75.4m (£50.1m) for 1995. He confirmed that Tomkins believed it could extract saving

"It has been a tough first

Operating profits rose from

£25.6m to £27.4m as group mar-

gins improved from 11.7 per

Of the group's three divi-sions, the largest contribution came from the packaging busi-

ness, which reported profits of

Profits in the plastics divi-sion rose more modestly from

£4.8m to £5.21m, but were held

back by sharply-reduced con-tributions from its North

The specialist materials side

Mr Norman McLeod, finance

made profits of £7.71m (£7.2m).

director, predicted that the

group would benefit in the sec-

ond half from lower costs and

more efficient productioo fol-

lowing increased capital expen-

diture of £17m (£10m) in new

1.02 1.23L 0.913 1.84 0.53 15.57 26.2 5.1 0.309

0.2051. 0.276 323

equipment and machinery.

(41.4 ) (4.15 ) (20 ) (21.6 ) (16 ) (142.4 ) (218.9 ) (64.4 ) (1.1 ) (3.25 ) (4.76 )

196.7

211 67.1 1.84 3.12 5.83

American operations.

cent to 13 per cent.

£14.5m (£13.6m).

half from the trading stand-

point, but profits and margins

have improved significantly

of up to £250m over three years by better management of stocks and improved financial controls at the Colorado-based

They've lacked motivation to make the most of their ets," he added. Mr Hutchings said he wanted

to apply the sama financial controls that have led to a 30 per cent increase in margins over the past three years at the Ranks Hovis McDougall, the foods, milling and baking business acquired for 1990m in Of the group's £303.2m operating profit last year, food products contributed £95.1m (£85.9m) and milling and bakng £38.5m (£32.9m).

Improved contributions from those divisions helped offset a sharply reduced profits in professional, garden and leisure products, which fell from £47.3m to £35.8m.

Mr Hutchings blamed the shortfall on depressed sales of its Murray lawimowers in the US, where demand was held back by inclement weather. Profits, nevertheless rose

By Roderick Oram,

Consumer Industries Editor

Jnigste is paying £77.3m

(\$120.6m) for the European margarine and spreads busi-

ness of Kraft Foods Interna-

tional in an acquisition which

will beighten competition in

the UK with Unilever, the dom-

The UK accounts for 90 per

cent of the sales of the Kraft

businesses through brands

such as Vitalite and Golden Churn brands. The balance are

in Italy including two leading margarine brands, Valle and

Valla Grangusto, which will further Unigate's ambition of

building a continental food

husiness. Unigate made two

small acquisitions in France

last year and plans further pur-

Unigate's purchase of Kraft's margarines "makes this much

more of a three-cornered fight

in the UK", said Mr Michael

Landymore, an analyst with

0.85美

es in Europe.

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Oct 7

Aug 30

inant company in the sector.

Unigate spreads

with Kraft deal

controls and from £18.9m to £23.7m in services to industry. Improved contributions of £69.4m (£65.3m) in industrial products also helped lift net

cash by £105.6m to £394.5m. Earnings per share rose from 17.92p to 18.88p, or from 17.46p to 18.7p after allowing for the exercise of all outstanding

Mr Hutchings announced a final dividend of 7.25p (6.22p), making a total of 9.95p (8.65p). The shares rose 3p to 251p

hrokers Henderson Cros-

thwaite. It lifts Unigate's mar-

ket share from 14 per cent to 25 per cent against Unilever's 44.6 per cent. The third main com-

petitor is Dairy Crest, the man-

terday issued tts pathfinder

prospectus for its stock market flotation next month.

Unigate has long been

rumoured as a potential buyer

of Dairy Crest to bolster its own milk processing and spreads business. With a mar-

ket capitalisation of £200m-

£250m Dairy Crest will be

roughly 70 per cent owned by

farmers and 30 per cent by

Kraft, the food arm of Philip

Morris, the US cigarette, beer

and foods group, has shed six

European businesses in the

past six months as it focused

on its core products of coffee,

confectionery, cheese and gro-

Vietnamese move

ICI Paints, a division of the UK chemicals group, has spent \$2.8m (£1.8m) buying into an

existing paints manufacturing

joint venture in Vietnam. Under the deal, ICI Paints

will acquire from Hong Kong-

registered company Hong Biu

its 65 per cent stake in Vina

Paint, a joint venture based in

Thu Duc. 15km outside Ho Chi

ICI Paints in

institutions.

ceries.

ufacturing arm of the defunct Milk Marketing Board, with 12.2 per cent. Dairy Crest yes-

# Docks de France

Tesco, the UK supermarket group, is understood to be considering a white-knight intervention in the battle for Docks de France, the French retailer under siege from the privately-

owned Auchan group.
A move could cost the UK group up to 22.5bn (\$3.9bn) and would almost certainly involve a big rights issue. But it would give the company the critical mass it has been seek-ing in France following its acquisition of Catteau, the French retail group.

The idea of Tesco moving

for Docks de France is far from fanciful," said one com-pany adviser. "The market has always thought that Catteau would be augmented with

Tesco's interest follows Auchan's FFr17bn (£2.1bn) hostile hid for Docks de France two weeks ago at FFr1,250 per share. Docks de France is a quoted retail company best known for controlling the Memmonth snpermarket

Tesco has made it clear it wants to continue expanding in France and eastern Europe, where it has already invested £340m. It bought Cattean which has 120 stores, in May 1993 but the French unit's performance has been disappoint-

Tesco is under pressure to move quickly because of the rapid restructuring of the retail French market, Consolidation is being driven by tough restrictions on large retail developments and an increasing shortage of acquisition opportunities.

But one burdle could be the UK group's UK rival, Sainsbury, which has an alliance with Docks de France and two

other European groups.

Mr Paul Smiddy, analyst with Credit Lyonnais Laing in London, said: "It's too big, too soon to be ideal for Tesco. The company still hasn't got a sufficiently good growth record at Cattean." He suggested it might be easier for Tesco to buy some stores from Auchan if the latter's bid was success-

## LEX COMMENT

FINANCIAL TIMES TUESDAY JULY 9 1996

The skeletons are rattling out of Hanson's cupboard at a rapid pace, as it completes its pre-demerger spring clean. Following hard on the heels of a cut in the future dividend, and a reduction in earnings from accounting changes, Hanson yesterday introduced a £3.2bn writedown in its asset value. The reductions at Hanson's Peabody and Cornerstone subsidiaries are a response to a new US accounting policy. But they bear an uncanny resemblance to the write-ups in assets that Hanson

announced when it acquired

those businesses - write-ups which looked unjustifiable at the

The latest changes have no impact on either Hanson's earnings or cash flow, and these are the primary yardsticks for valuing its shares. Nonetheless, it is worth considering what Hanson would look like, if it had introduced these changes which are primarily unrelated to demerger – but had not broken itself up. Based on September 1995 figures, shareholders' funds would drop from £3.6hn to £400m, earnings per share would fall 5 per cent, and analysts would doubtless be predicting a dividend cut of 50 per cent – the rough extent of the requestion postdemerger. Pleased to that context the 10 reserved. its reduction post-demerger. Placed in that context, the 19 per cent share price fall since the restructuring was announced looks relatively subdued, and underlines the rationale of the break-up. At least, with demerger documents due out next mouth, there is little time for more skeletons. Hanson will have to work at winning back confidence in the strength of its remaining balance sheet, given its recent battering. But the shares are finally trading below realistic estimates of their

#### **Electronic Retailing** seeks listing on Aim

By Martin Brice

Electronic Retailing Systems the US supplier of electronic shelf labelling systems for retailers, is seeking £7.7m. (\$12m) via a placing, and admission to the Alternative Investment Market.

The company is listed on Nasdaq, the screen-based US exchange and this is the first application to join Aim by a Nasdaq-quoted group. Its product allows price changes and stock information to be transmitted between the shelf unit and the store's central com-

Mr Bruce Falling Jr, president and chief executive, said: "We are in the process of nego-

tors who will be selling our product in Europe and it would be belpful to our marketing over the next few years if we

were listed in London." He said a rival Swedish company called Pricer had a marpotential market for electronic retailing systems.

Henderson Crosthwaite has placed 4.9m shares at 145p each, and in addition, directors of ERS have subscribed for 911,657 shares in a private placing to raise £1.3m. The market capitalisation of ERS at the

ket multiple 10 times that of his company, which suggested European institutional investors were interested in the

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placing price is £30.5m.

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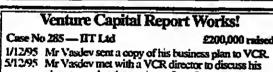
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plans to market the services of a software development house based in India. 1/1/96 A detailed appraisal of Mr Vasdev's project was published in the January issue of VCR. Mr Vasdev made a 15 minute presentation to VCR subscribers at the monthly Investment presentations 25/4/96 £200,000 was invested by two VCR investors.



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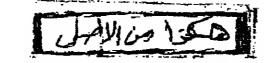
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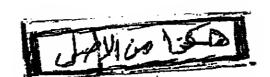
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For further information, please contact Nigel Vooght or James Bradney of Coopers & Lybrand, Plumtree Court, London EC4A 4HT. Tel: 0171 538 5000. Fox: 0171 212 6004

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FOR SALE

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## *TARLSBRO*

SPECIALIST DESIGN/MANUFACTURER OF PROFESSIONAL SOUND REPRODUCTION EQUIPMENT The Joint Administrative Receivers, Martin Lloyd and Shaun Adams, offer for sale the

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#### KPMG Corporate Recovery **ASTIKA AKINITA**

INCORPORATED COMPANY OF REAL ESTATE CONSTRUCTIONS TOURIST AND RELATED ENTERPRISES

REPEAT PUBLIC CALL FOR TENDERS FOR THE SALE OF THE ASSETS OF THE "MARTIN BEACH" HOTEL UNIT

"ASTIKA AKINITA S.A." (43 Panepistimiou str., 105 64 Athens), under its capacity as special liquidator, by virtue of Judgements nos. 593/1994 and against the "Enterprise" (para. 1, article 49a. L. 1892/1990 as applicable) are not table for any legal or real defects or the lack of any attributes of the objects 229/1996 of the Larisse Court of Appeal, of the assets of the hotel unit under the title "MARTIN BEACH" (henceforth referred to as the "Enterprise") which is owned by the incorporated company "MARTIN BEACH HOTEL S.A."

a repeat public call for tenders with sealed, binding offers, for the sale of the essets of the "Enterprise" which has come under special liquidation by virtue of article 46a L. 1892/1990.

ACTIVITIES AND BRIEF DESCRIPTION OF THE COMPANY

The above unit is owned by the Incorporated company "MARTIN BEACH HOTEL S.A." which was established by act no. 10.077/16.1.1986 of the Athens notary public K. Gianoulas. The head offices of the company according to its articles of association is the Municipality of Sidathos, Prefecture of Magnisia. The company operated the hotel unit until the lessue of the above judgements by the Larissa Court of Appeal, whereupon it came under special liquidation as provided by article 48a, L. 1892/1990 and the company ASTIKA AKINITA S.A. was appointed special liquidator.

The notel unit under sala belongs to Hotel Class B and has e-capacity of 41 rooms - 80 beds. It is located at Tzaneria, Isle of Skiathos, at a distance of approx. 4,5 km. from the town, on a site with total area of 4,986.46 sq.m. The hotel complex consists of two (2) main buildings-wings covering a total constructed area of 2,230 sq.m. plus terraces and semi-covered areas, erected on fifteen different levels in line with the considerable natural inclination of the ground.

all interested parties to receive an offer memorandum, and submit a sealed, binding offer accompanied by a letter of guarantee by a Bank operating lawfully in Greece, for the sum of tony million Orachmae (Drs. 40,000,000) with the contents described in the offer memorandum.

1. The public call for tenders will be carried out in accordance with the provisions of article 46s, L. 1892/1990 which was added to the law by virtue of the provision of article 14, L 2000/91, as amended, modified and applicable, the terms included in the present call for tenders and the terms of the offer

memorandum, which interested parties may obtain after submitting a pledge of confidentiality in writing. 2. In order to participate in the call for tenders, interested parties are invited to deliver a sealed, binding offer in writing by 11:00 Tuesday, July

30, 1996 to the Skistings notary public Chrisics K. Glassgias, 28 Papadismanti street, 370 02 Skiathos, tel: (0427) 2.2232, fax: (0427) 2.1988 3. The offers and the letter of guarantee must be delivered in a sealed, opaque anvelope by the interested party in person or by a duly authorized

4. The offer must mention clearly the amount offered for the purchase of the hotel unit of the ("Enterprise") and must not contain any terms, options or vague

phrases which might create uncertainty as to the amount, the manner of payment of the sum being offered or other matters related to the sale. 5. Offers delivered after the expiration date will not be accepted and will not be considered. The binding nature of the offers will apply until the award of the

6. The assets of the "Enterprise" and all the secondary fixed or current attributes of which they consist, such as real estate, movemble objects, claims, name, tile, rights, etc. will be sold and transferred "as and where they are", i.e. in their real and legal condition and at the place where they are located on the diste of signing the contract of sale.

and rights being sold, nor are they liable for any emissions or inaccuracies contained in their description in the other memorandum or any correspondence

8. Interested potential purchasers are obligated under their own supervision and by their own means, expenses and personnal, to investigate and acquire a personal perception of the objects being sold, and to mention in their offer that

they are fully informed as to the real and legal status of the assets under sale. 9. The liquidator and the creditors mentioned in para. 7 above are entitled, according to their own judgement, to reject offers containing terms and options, or the phrases reterned to in para 4 above, regardless of whether they are superior to other offers as regards the amount being offered.

in every case, the creditors are entitled, according to their own judgement, to distriles offers containing terms or options, regardless of whether such offers are superior to others, or consider such terms as not included, in which case the offer remains binding as to its other contents (erticle 2, pars. 3, L.

10. In the event that the highest bidder violates its obligation to come forward and sign the relevant contract within ten (10) days from the invitation by the Residence and observe the observiors arising from the present announcement the letter of guarantee is torteited in favour of the liquidating company towards covering all its expenses of any type and its services, as also any direct or indirect damages, without the necessity of proving specific damage, and as a penel clause in favour of that company, deemed as having been submitted with the offer, so that the guarantee may be collected from the Issuing Bank.

The letters of guarantee are returned to all the other participants following the avaluation report of the liquidator, and to the successful bidder, to whom the sale will be awarded following the payment of the amount agreed and the drafting of the payment order

The seeks of the offers will be broken by the notary public mentioned above, at his office, at 12:00 on Tuesday, July 30, 1986.

12. The successful bidder will be the party whose offer be judged by the liculator and accroved by the creditors meratoned in para. 7 of the present, as being the most advantageous for the creditors of the "Enterprise".

13. The liquidator will notify the successful bidder in writing of his obligation to come forward to the place and at the time determined in the notification, for signing the contract transferring the assets, according to the terms of the offer and any improved terms that may be indicated by the creditors and agreed with 14. All expenses and costs srising from participation in the tender and the

transfer of assets (such as taxes, stamp duty, notarial lees, V.A.T., publications, etc.) will burden the interested potential purchasers and the highest bidder as referred to in the above offer memorandum. 15. In the event of part of the purchase amount being on credit, the highes

bidder will be under the obligation to provide any guarantee requested by the liquidator according to its own, exclusive judgement, and will be burdened with all related expenses and fees for the formation of such guarantees and their 16. The liquidator and the creditors will not bear any responsibility or liability

against those who participate in the tender as regards the evaluation of the offers, their recommendation of the successful bidder, the decision for the repetition or cancellation of the tender and any other decision relevant to the procedure and realisation of the tender.

17. The present announcement has been drafted in the Greak language and ated into the English language. In every instance however, the Greek text

interested parties may coltact offer memorandums end receive other information from Mr. George E. Poimenides and Mr. Alexandros Meggos, 43 Panepistimiou str., 105 64 Athens, tel. nos: 326.6113 and 326.8080, fex no:

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For butther information implease contact: James Nicholis, BDO Stoy Hayward, B Balor Street, Loudon WIM IDA.

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- Located in 12,500 sq ft freehold
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For further details contact the Joint Administrative Receivers: Les Ross or David Rowlands, Grant Thornton, 1st Floor, Royal Liver Building. Liverpool, L3 1PS. Tel: 0151 224 7200 Fax: 0151 227 1153

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D MORTIMER'S TRANSPORT SERVICES LIMITED D MORTIMER'S DISTRIBUTION LIMITED D MORTIMER'S (PRINT SERVICES) LIMITED D MORTIMER'S COMMERCIAL VEHICLE SERVICES LIMITED

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- · Blue chip customer base
- · 180 employees across the Group Main depots situated in Milton Keynes, Watford, Brighouse
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- For further details please contact R Robinson or G Lee of Buchler Phillips Traynor, Blackfriars House, Parsonage,

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INCORPORATED COMPANY OF REAL ESTATE CONSTRUCTIONS TOURIST AND RELATED ENTERPRISES

capacity as special liquidator, by virtue of Judgements nos. 593/1994 and 229/1996 of the Larisea Court of Appeal, of the assets of the holel unit

to as the "Enterprise") which is owned by the incorporated company SKIATHOS TOURISM HOTEL AND GENERAL ENTERPRISES AV.

a repeat public call for tenders with seeled, binding offers, for the sale of the assets of the "Enterprise" which has come under special liquidation by virtue of article 46a, L.1892/1990. BRIEF DESCRIPTION OF THE UNIT

TOURISM HOTEL AND GENERAL ENTERPRISES P.V. DERVENIS S.A. which was established by act no. 10.876/31,10.1988 of the Skiathos. notary public Christos K. Giasegias, with head offices in the Municipality of Skiathos, Prefecture of Magnisia. The company operated the hotel until until that issue of the above judgements by the Larissa Court of Appeal, whereupon h came under special liquidation as provided by anicle 46a, L\_1892/1990 and the company ASTIKA AKINITA S.A. was appointed

The hotel unit under sale belongs to the Luxury Class and has e capacity of 133 rooms- 264 beds, it is located on the coast, at Adia Paraskevi, Isle of Skiathes, at a distance of approx. Bidm. from the town, on a site with a total area of 27,345.00 sq.m. The hotel complex consists of seven (7) main buildings - wings covering a total land area of 4,116.25 sq.m. plus covered areas, e total constructed area of 8,932 sq.m., and a number of austiany buildings serving the additional operational requirements of the unit.

any interested party to receive an offer memorandum and submit a seplect binding offer accompanied by a letter of guarantee by e Bank operating iswhally in Greece, for the sum of the hundred and lifty million drachmae (Drs. 150,000,000) and the contents described in the offer memorandum. CONDITIONS

- 1. The public call tenders will be carried out in accordance with the provisions of article 46a, L.1892/1990 which was added to the law by virtue of the provision of article 14, L\_2000/91, as amended, modified
- 2. In order to participate in the call for tenders, interested parties are invited to deliver a sealed, binding offer in writing by 11:00 Tuesday, July 30, 1995 to the Skitathos notary public Christos K. Glasagias, 28 Papadiamenti street, 370 02 Skisthos, tel.: (0427) 2.2232
- fax: (0427) 2.1988. 3. The offers and the letter of guarantee must be delivered in a sealed, opaque envelops by the interested party in person or by a duly
- 4. The offer must mention clearly the amount offered for the purchase of the hotel unit ("Enterprise") and must not contain any terms, options or vague phrases which might create uncertainty as to the amount, the manner of payment of the sum being offered or other matters related to
- 5. Offers delivered after the expiration date will not be accepted and will not be considered. The bunding nature of the offers will apply until the award of the sale.
- 6. The assets of the "Enterprise" and all the secondary fixed or current attributes of which they consist, such as real estate, moveable objects, claims, name, title, rights, etc. will be sold and transferred "as and where they are", i.e. in their real and legal condition and at the place where they are located on the date of signing the contract of sale.

The second secon

- "ASTIKA AKINITA S.A." (43 Panepistimiou str., 105 64 Athens), under its capacity as special liquidator, by virtue of Judgements nos. 583/1994 and 229/1996 of the Larissa Court of Appeal, of the assets of the hotel unit attributes of the objects and rights being sold, nor are they lightle for any omissions or inaccuracies contained in their description in the offer memorandum or any correspondence.
  - supervision, and by their own means, expenses and personnel, to investigate and acquire a personal perception of the objects being sold, and to mention in their offer that they ers fully informed as to the real and legal status of the assets under sale. 9. The liquidator and the creditors mentioned in para. 7 above are entitled, according to their own judgement, to reject offers containing terms and options, or the phrases referred to in para.4 above, regardle

8. Interested potential purchasers are obligated, under their own

whether they are superior to other offers as regards the amount being offered. In every case, the creditors are entitled, according to their own judgement, to dismiss offers containing terms or options, regardless of whether such offers are superior to others, or consider such terms as not included, in which case the ofter remains binding as to its conte (article 2, para. 3, L.2302/1995). 10. In the event that the highest bidder violates his obligation to come lorward and sign the relevant contract within ten (10) days from the

invitation by the liquidator and observe the obligations arising from the present announcement, the letter of guarantee is forfelted in toyour of the liquidating company towards covering all its expenses of any type and its services, as also any direct or indirect damages, without the necessity of proving specific damage and as e penul clause in favour of that company, deemed as having been submitted with the offer, so that the guarantee may be collected from the issuing Bank. The letters of guarantee are returned to all the other participants

following the evaluation report of the liquidator, and to the successful bidder, to whom the sale will be awarded following the payment of the amount agreed and the drafting of the payment order.

11. The seals of the offers will be broken by the notary public ntioned above, at his office, at 12:30 on Tuesday, July 30, 1996. 12. The successful bidder will be the party whose offer will be judged by the liquidator and approved by the creditors mentioned in para. 7 of the

present, as being the most advantageous for the creditors of the 13. The liquidator will notity the successful bidder in writing of his obligation to come torward to the place and at the time determined in the notification, for signing the contract transferring the assets, according to the terms of the offer and any improved terms that may be indicated by

the creditors and agreed with the highest bidder. 14. All expenses and costs arising from participation in the lander and the transfer of assets (such as taxes, atamp duty, notarial tees, V.A.T., publications, etc.) will burden the interested potential purchasers and

the highest bidder, as referred to the above offer memoranda. 15. In the event of part of the purchase amount being on credit, the highest bidder will be under the obligation to provide any guarantee request by the liquidator according to its own, exclusive judgement, and will be burdened with all related expenses and less for the formation of such

guarantees and their cancellation. 16. The fiquidator and the creditors will not bear any responsibility or liability against those who participate in the lender as regards the evaluation of the offers, their recommendation of the successful bidder, the decision for the repetition or cancellation of the tender and any

other decision relevant to the procedure and realisation of the tender. 17. The present announcement has been drafted in the Greek language and translated into the English language. In every instance however, the Greek lext will prevail.

interested parties may collect offer memorangums and receive other information from Mr. George E. Polmenides and Mr. Alexandros Meggos, 43 Panepistimiou str., 105 64 Athens, tel. nos: 326.6113 and 326,8080, fax no: 326,6115.

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**ASTIKA AKINITA** 

REPEAT PUBLIC CALL FOR TENDERS FOR THE SALE OF THE ASSETS OF THE "SKIATHOS PRINCESS ELISABETH" HOTEL UNIT

under the title "SKIATHOS PRINCESS ELISABETH" (henceforth referred

The above unit is owned by the Incorporated company "SKIATHOS

and applicable, the terms included in the present call for tenders and the terms of the primary and the additional offer memoranda, which interested parties may obtain after submitting a pledge of confidentiality

■ Spanish bonos also outper-

formed bunds. The September

future on 10-year bonos closed

at 100.89, up 0.49. The 10-year

and Lisa Bransten in New York

European bond markets took a respite after Friday's hectic session, but continued to outperform US Treasuries, albeit in moderate volumes.

UK gilts were supported by weak producer price data, which revived the debate over further interest rate cuts. Liffe's September long gilt future settled at 106%, up 5.
In the cash market, the 7% per cent gilt due 2006 was up 2 at 107%, its yield spread over bunds 5 basis points tighter at 149 points. The yield spread over US Treasuries tightened by 8 basis points to 90 points.

Output prices fell 0.2 per cent month-on-month in June. slowing the annual rate of increase to 2.6 per cent from 2.8 per cent in May. Although industrial production was stronger than expected, rising by 0.8 per cent month-on-month in May, the weakness of points lower by year-end.

By Antonia Sharpe

BONDS

Japan's Exim Bank is set to

launch a \$750m five-year euro-

bond offering today, unde-

terred by the volatility in the

bond markets following Friday's sell-off in US Treasuries.

The bonds, via Nomura and

Merrill Lynch, are likely to be priced to yield 14 basis points

over Treasuries, to produce an

eye-catching 7 per cent coupon.

The offering, marketed to

investors overnight, is the larg-

INTERNATIONAL

Japan's Exim Bank

set to raise \$750m

was unchanged from April, confirmed the quasi-stagnation of the economy.

"If the recovery fails to take hold, rates will be cut again as inflation falls," said Mr Simon Briscoe, an economist at Nikko

■ Italian BTPs showed a strong performance on rising expectations of rate cuts by the central bank. Liffe's September BTP future closed at 117.21, up 0.09, before reaching a high of 117.38 in after-hours trading. Market participants seemed increasingly confident that a rate cut was imminent. "There is room for a monetary easing," said Mr Marcello Pericoli, an Italian economist at San Paolo Bank in London. "But we do not expect any rate cuts until around the end of August." Mr Pericoli predicts

official interest rates will be between 150 and 200 basis

decided to play safe because of

the difficult market conditions.

By pricing the bonds at 14

basis points over Treasuries

they were likely to sell well,

syndicate managers said. The Inter-American Develop-

ment Bank is also looking to

raise \$500m through an offer-

ing of five-year bonds. It is

holding a meeting today to dis-cuss tactics but has yet to

Borrowers tapping the euro-

bond market yesterday also acknowledged the importance

of an attractive coupon and a

relatively short maturity to

entice investors, in particular

retail, into a difficult market.

appoint lead managers.

spread of bonos over bunds tightened by 9 basis points to 219 points. Economists at Bank of America believe the "scope for Spanish outperformance...looks

#### GOVERNMENT BONDS

limited right now". However, they remain bullish on bonos and recommend establishing "new spread positions" if the yield gap over bunds widens again to around 235 basis

■ German and French bonds showed the weakest performances among European mar-kets. Matif's Septamber notional future settled at 121.28, down 0.22. In the cash market, the 10-year benchmark

E US DOLLARS Republic of Austria(s) Ascot Capital:

E D-MARKS

I ITALIAN LIRE

III DANISH KHONER

Vattenfell Treesury()

New 5th Wales Transury Corps

DEST MARROCA

coupon, which should appeal

to retail investors. The bonds,

due December 1999, were priced to yield 5 basis points

below 6% per cent Treasuries

due May 1999 but syndicate

managers pointed out that

GECC(I)

Eurofime(b)

New international bond issues

400

6.375

101.41

Final terms, non-callable unless stated. Yield spread (over golf bond) at termin supplied by lead minutes. At historical # Floating-rate note. #Semi-tunnual coupon. Fit fixed re-offer price; fees shown at re-offer level, e) 3-min Libor -4bp, b) Exchangeable annually from 5/8/96 at lessens option into FRM paying 6-min Libor fiel. c) 5.50% to 27/8/99, then 8.25%, i) Long 1st coupon, e) Short 1st coupon.

basis points below three-year

Daiwa said the high redemp-

tion rate of dollar-denominated

eurobonds was likely to lead to

further issuance of short-dated

eurobonds, Redemptions are

its yield 4 basis points lower than that of the equivalent bund.

Liffs's September bund future closed at 95.13, down 0.04. In the cash market, bunds outperformed US Treasuries. At the European close, the yield of the 10-year T-Note stood at 59 basis points over that of the equivalent bund, 4 basis points wider than on Friday and up 21 basis points from last Thursday.

■ US Treasury prices were stable in quiet trading in the wake of Friday's sell-off that sent the benchmark 30-year bond nearly 3 points lower. In early morning trading, the long bond was down more than a quarter-point as selling in Asia and Europe carried over

was just it lower at 85# to yield 7.186 per cent.
At the short end of the matu-

into the US session. By mid-day, however, the long bond

note was down \( \frac{1}{12} \) at 99%, yielding 6.437 per cent. The September 30-year bond future was ¼ lower at 106≟.

The market tumbled on Friday after a stronger than expected figure on June employment sparked fears that the Federal Reserve might raise interest rates even before the next meeting of its Open Market Committee in August. Mr John Spinello, a govern-

Merrill Lynch, said many investors proved unwilling to sell securities given the recent rise in yields. Some bargain hunting after Friday's decline had also helped to stabilise the market, he added.

ment securities strategist at

Investors are focusing on Friday's release of figures on June producer prices and retail sales for signs of whether the strong economic growth seen so far this year will translate into

pb

BNL/San Paolo, Turin

five-year bonds which were

priced to yield 15 basis points

over German government

Some syndicate managers said the pricing was rich com-pared with DSL Bank's recent

FT-ACTUARIES FIXED INTEREST INDICES

122.26

198.79

0.02 0.09 0.11 -0.42 0.07

122.24

medium-term notes.

year D-Mark bonds,

Up to 5 years (22)

6 Up to 5 years (1) 7 Over 5 years (11) 6 All stocks (12)

inflationary pressures.

#### JP Morgan launches European dollar OIS

Short-term interest rate volatility is likely to increase in the run-up to European monetary union, reinforcing the need for a wider range of hedging instruments. "Market volatility is gradu-

ally shifting from foreign DERIVATIVE

#### INSTRUMENTS exchange rates to interest rates," says Mr William Porter, short-term interest

rate product manager at J.P. Morgan.

The US investment bank yesterday launched the first European Overnight Indexed Swap (OIS) on US dollars. The underlying floating rate for this fixed/floating-rate hedging instrument is the Fed Funds effective rate.

J.P. Morgan says these instruments are becoming the key short-term interest rate hedging tool across Europe -trading in French franc OISs approaches the volumes of exchange-traded Pibor futures. Mr Porter insists that for an

OIS to succeed, "it is essential that the published index be as representative as possible of the rate at which actual trans actions are carried out". The Ecu offers a good example. The Bank for Interna-tional Settlements participated

in the creation of the index, which is compiled from rates on all component currencles through more than a dozen banks. Overnight transactions are then settled at the compiled rate, which ensures publisbed and effective rates

re-opening, but lead manager SBC Warburg said the bonds Market participants say offered a respectable pick-up of there is strong demand for 5 basis points over the Euro-OISs in sterling, but no prodpean Investment Bank's fiveuct is on offer yet due to the absence of a benchmark.

4.72 5 yrs 8.12 15 yrs 6.90 20 yrs 8.36 kmd.†

Up to 6 yrs Over 5 yrs

Bends: Low: 0%-74%; Medium: 8%-10%%; High: 11% and over, † Flat yield, yid Year to date

# Thai groups plan securitised FRNs

Two That companies are to launch a \$270m-\$300m floating rate note issue backed by motor vehicle lease receivables next Monday. It is the first such securitised deal from an Asian emerging market and follows a smaller private placement carried out in Hong

Kong. ING Barings, arranger and lead manager for the transac-tion, says the deal has already stimulated interest from simi-lar companies in Thailand, and the investment bank also expects to tap markets in Indonesia and the Philippines.

Because the deal is guaranteed by the monoline insurer MBIA, which has a triple A rating, the FRNs will also carry a triple-A rating - higher than the single-A country rating of Thailand.

The notes are being launched as a eurobond issue, to be distributed in Europe and Asia by Thai Cars, a specially created vehicle that brings together Tru-Way, which has a portfolio of hire-purchase contracts, and Tisco Leasing, which has a portfolio of motor rehicle lease receivables.

Mr Jim France, director of structured finance at ING Barings, says the format is cost-effective for the issuers. While the first issue is expensive

By Louise Lucas in Hong Kong because of one-off legal fees, on-going costs will be lower and Thai Cars plans to use the method to raise funds in future. The FRNs will be priced at between 20 and 23 basis points above Libor.

Bankers are divided on the success of motor vehicle lease securitisation in Asia. Some point to the experience of Europe, where securitisation has not taken off to the same extent as in the US, and sug-gest a similar scenario in Asia. But Mr France attributes the lack of interest in Europe to low borrowing costs for banks and companies on one hand and well capitalised banks on

By contrast, the model gives Thai companies the ability to issue triple-A rated paper, and to tap lower-cost funds. Moreover, adds Mr France, Thai companies involved in leasing find it difficult to raise money on their own as they are in the finance business, but not regulated by Bank of Thailand.
"The only real source of fund-ing they have is the bank market, and the banks will quickly run out of credit exposure and the auto market is accelerating rapidly," he said.

The notes have a final maturity of six years, an expected final maturity of 39 months and an expected average life of

#### Liffe, CBOT set link date

— Low coupon yield — — Niedkum coupon yield — — High coupon yield — Jul 8 Jul 5 Yr. ago Jul 6 Jul 5 Yr. ago Jul 6 Jul 5 Yr. ago

7.38 8.19 8.27

7,38 8.17 8.26

7,95 8,17 8,16 8,26

2.57 3.22 3.81 3.64

Jul 8 Jul 5 Yr. ago

7.86. . .8.21 8.22

1.07

A link between the Chicago Board of Trade and the London International - Financial Futures and Options Exchange, decided in December 1995, will be implemented

on May 7 1997. Each exchange will allow the other to trade its leading. long-term bond future in open notes. In exchange, CBO1 outcry, which will bring Liffe's have access to Liffe's long bund futures and CBO1's US and Italian BIP futures.

7.33

Treasury bond futures closes to 24-hour trading. The link was originally planned for June 28 1996, but was delayed for technical reasons associated with the mar-

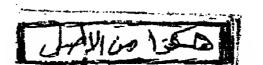
kets' clearing houses. In a second phase of the agreement, Liffa will start trading CBOT's futures on fiveyear and 10-year US Treasury notes. In exchange, CBOT will have access to Liffe's long gilt

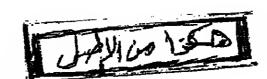
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MICHOSS RAPER

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ireland Italy	8.000 9.500	02/06	101,9900 102,2200		7,70 7,83 3,14† 9,21	9.26	1,001,00	Oper	Sett price		High	Low	Est, vol	Open Int.
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Netherlands Portugal	6.000 11.875	02/05	98,2200 118,4400		8.54 6.44 8.72 8.78		-							697 ths of 100%
Spain Sweden	8.000 8.000	04/06	99.8800 85.9017		8.80 8.80 6.36 8.16		Strike		C/	us —			PUTS -	
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#### CURRENCIES AND MONEY

MARKETS REPORT

# Markets await the Treasury report

By Gillian Tett,

Currency markets were subdued yesterday as dealers' attention remained split between the market swings in the US at the end of last week and the prospect of fresh UK pelicy developments today.

In the UK, the main focus of interest was today'a summer economic forecast from the British Treasury. With tha details of this not released until mid-morning, traders were reluctant to take strong positions ahead of the report. However, for Continental European currencies, interest remained fixed on last week's comments from the Bundes bank about the likelihood of bank about the likelihood of

further German rate cuts. Meanwhile, traders on both sides of the Atlantic continued to mull over the prospect of a US interest rate rise, following last week's stronger-than-expected US jobs data.

In the UK, the markets had

CROSS RATES AND DERIVATIVES

some mixed data to digest after official figures showed that manufacturing output was flat year on year in May.

further evidence of the weak state of export markets. But though this left some economists concerned about the state of demand, it also had favourable inflation implications: prices for factory goods fell for the second month run-

ning. On balance, economists decided that this made an interest rate rise fractionally less likely: the sterling futures contract for December rose by 5 basis points during the course of the day's trading to 94.14. At this level traders expect UK base rates to be slightly below 6 per cent by the

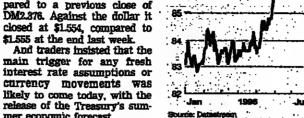
end of the year - or a fraction higher than their current level, The data was slightly supportive for sterling, helping it

The muted picture provided to maintain its level against a surther evidence of the weak strengthening D-Mark and dollar. It closed at DM2.375, compared to a previous close of DM2.376. Against the dollar it closed at \$1.554, compared to \$1.555 at the end last week. And traders insisted that the

> interest rate assumptions or currency movements was likely to come today, with the release of the Treasury's summer economic forecast. This is expected to show that the government now expects borrowing to be higher than previously forecast, while growth this year will be a little

Elsewhere, trading in Continental European currencies was shaped by reaction to comments from Mr Hans Tietmeyer, Bundesbank president at the end of last week.

Trade weighted index



In these he indicated that he did not see any grounds for cutting German interest rates in the current economic cli-

These comments pushed the D-Mark noteably higher during the course of the day, as traders contemplated the possibility that the next move in German interest rates would be up, rather than down.

In the European crosses, the Garman D-Mark closed at FFr3.885 against the French franc compared with FFr3.380 the previous week.

lira at L1005, compared to the previous close of L1003. Meanwhile, against the peseta it ended the day at Pta84.04, compared to a previous close of Pta84.05.

It closed against the Italian

■ Against the dollar, by contrast, the D-Mark ended at DM1.528, unchanged from the level it settled at during Friday's European trade.

This flat position largely reflected the fact that the dollar - like the D-Mark - enjoyed a wave of positive sentiment during the day, as dealers began to consider the next round of interest rate rises.

This swing had been trig-gered on Friday by better than expected jobless data. These figures, coupled with signs of strengthening wage demands, triggered fears that the economy may face a risk of over-

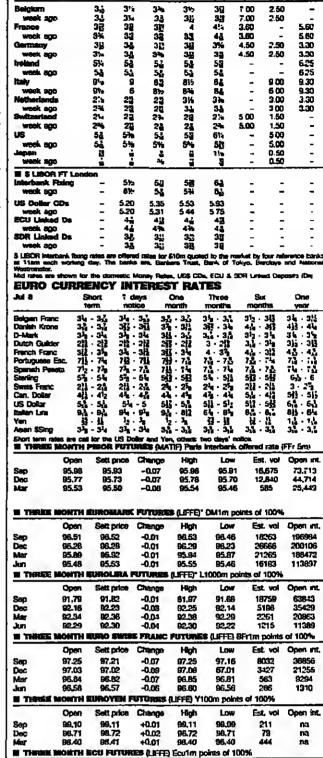
The dollar strengthened in late US trading on Friday, and this bullish tone was maintained during the opening

hours of European trade. However, profit taking pushed the dollar back during the course of yesterday afternoon. And market obs warned that the bullish tone to the US currency was unlikely to provoke a dramatic strengthening while uncertainty remained about when

There is quite a bit of trepi-dation in the market as to the precise timing of a U.S. interest rate hike, said Mr Stuart Thomson, chief economist at Nikko Europe.

US rates would rise.

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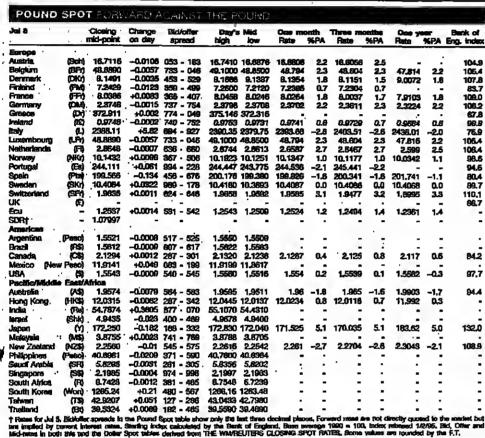
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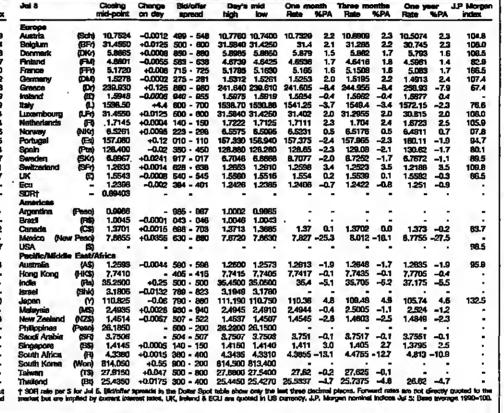
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WORLD INTEREST RATES





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July 1996

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By Robert Corzine

US oil refiners appear to be maintaining the "just-in-time" stock management techniques that helped to unsettle world oil markets during the past northern hemisphere winter.

The latest moothly oil market report from the International Energy Agency said there was a surge in US oil imports in May, with crude oil stocks reaching their highest end-of-month level in six

But the Paris-based agency. which monitors oil markets on lised countries, noted that even with a buying surge US stock levels only matched the historically low levels reported at the end of 1995. There are no indications

that the US industry will not continue the 'just in time' inventory policy that began last year," it concluded. Traders attribute much of the oil price volatility last winter to the "just in time" policy. Although it has cut the high cost of storing crude oil, it caused sharp price spikes as refiners scrambled to secure extra crude in response to sup-ply disruptions or sudden periods of high demand, usually as a result of bad weather. Oil stocks held in May by OECD members rose by an average of 1.2m barrels a day,

to end the month 92m barrels lower than a year ago. That is equivalent to 2.3 days of consumption. But the IEA said total industry stocks of crude oil and petrol at the end of May were in line with previous years. It predicted that the average stock build in the June-December period would need to be just 150,000 b/d to return to vear-earlier levels by the end of December.

The report said supply rose at an "unusually" fast rate in June to 72m b/d, compared for the year of 71.7m b/d. The agency has also main-

tained its relatively bullish outlook for production in countries outside the Organisation of Petroleum Exporting Countries. Although it has made some modifications to its last forecast, the IEA still expects "strong" output growth in non-Onec countries in the second half of 1996, with the North Sea accounting for more than 500,000b/d of the projected 1.4m bid increase over the first half of the year.

# 'Just in time' oil | Peruvian copper giant to boost output and cut costs

buying continues | Sally Bowen reports on an ambitious plan that will increase the country's output by 5 per cent

hrugging off concerns about the recent turmoil in world copper markets. US-owned Southern Peru Copper Corporation - far and away the country's largest copper producer - is planning a major expansion of its Peruvian operations on all fronts from extraction through to

refining. This could mean stepping up output by as much as 70 per cent to over 500,000 short tons ing to Southern Peru's CEO Mr Charles Preble.

Mr Preble was speaking at last month's ceremonies to mark the official inauguration of a new solvent extraction/electrowinning (SX-EW) plant at Toquepala, the older of Southern's two Peruvian mines. It processes both low grade sulphides from Toquepala and oxides from Cuajone. The SX-EW plant, which cost US\$103m, has been operating since late last year. Designed to produce 107 tons a day of 99.999 per cent pure copper cathodes, the plant is alrea well above those levels. June production was running at around 120 tons a day with no reduction in quality and purity

of the end-product, mine engi-

Russia's Norilsk Nickel metals group would delay the sale of copper produced in June until world prices rose, a company official said yes-terday, reports Renters from Moscow.

"We are waiting for the market to stabilise," said Mr Sergel Vetchinin. "Our specialists are reviewing contracts that were not drawn up properly in that they did not have standard hedging functions." Some June copper had not been indexed to specific market prices when it was produced, he said.

neers said.

This reduces the average cost Even assuming Toquepala's of Southern's entire Peruvian new plant produces only the operation to a satisfactory 53 40,000 tons a year originally projected, it will bump up Southern's total output by 15 per cent. That is equivalent to cents a pound (compared with \$1.03 in 1990 and 67 cents in 1994).

Designed and built by Bechtel of San Francisco and Peru's Cosapi with financing from the Andean Development Corporation (CAF), the Toquepala SX-EW plant is the most recent in a series of Peruvian investments hy Southern which total \$445m since 1991. This is substantially in excess of the \$300m the Asarco-controlled company committed to spend under a 1991 agreement with the Peruvian government. investments include the \$109m sulphuric acid partial capture plant operational since

The sales hold-off was attributed directly to the crash in London Metal Exchange copper prices following Sumitomo Corporation of Japan's recent announcement of heavy copper trading losses.

Norilsk, Russia's largest copper refiner and concentrate producer, exported about 115,500 tonnes of copper in 1995 from its total copper ontput that year of about 313,800 tonnes, according to company and state metallurgy committee figures.

tional cost of \$35m); new tailings disposal facilities costing some \$41m; more than \$100m spent on modernising equip-ment at the two mines; and expenditure on drinking water and sewerage systems in the town of llo where many

Southern workers live. \$65m at auction in April 1994 the former state-owned refinery at Ilo, originally built to treat hlister copper from Southern's nearby smelter under a tolling agreement. This has permitted rationalisation of operations, reductions in costs and a general increase in efficiency. So far, Southern has met about 70 per cent of a total \$20.2m investment commitment for upgrading the refi-

nery. No details are yet avallable

These floods are sonth of

the Yellow river. That's mostly

rice. All of their summer crops

like corn (maize) and wheat are doing O.K.," another trader

said, "We just have to wait and

see until the final report comes

China's rice area has risen

by almost 1 per cent in 1996 to

8.274m hectares, according to

an official survey. Its rice

April dropped 67 per cent to

in the market."

of the substantial expansion projected in Southern's Peruvian operations. But it now seems certain that a new smelter for Ilo will be a prior-

no residents have complained for decades about the discomfort and alleged health problems caused by emissions containing sulphur dioxide from the smelter chimneys. Last year, some townspeople attempted to sue Southern for damages in a Texas court.

Even though the case was dismissed, company officials now tacitly admit that, at least under certain climatic conditions, a pollntion problem exists. A \$1m study carried out between February and April hy TRC North America Weather Consultants is part of some \$2.3m to be spent by the company this year on a so-called "intermittent control pro-

This has resulted in periodic shntdowns at the smelter which cost the company some 7.16m lb in lost blister copper production between December and June. The ICP seems to be a

merely palliative measure and, Southern officials admit, a transitional one. Building a

gramme" (ICP).

new and larger smelter capable of handling an extra 70 per cent in minerals output is likely to leave Southern with little change out of \$1bn, if the most recently constructed smelter - Kennecott'a in Utah is used as a yardstick.

Higher output from the Toquepala and Cuajone mines - where Southern recently announced a 69 per cent increase in reserves - will also involve expanding capacity at tha No refinery. Under Southern's management, output has already been pushed up some 5 per cent to 220,000 short tons a year, but the new atudies, to be completed by year's end, will call for much grander schemes.

According to Mr Preble, Peru now offers the sort of political and juridical framework which permit the assumption of medium and long terms investment commitments. "We have full faith in Peru'a economic and social development," he told guests at last week's inangural ceremony.

Southern's first quarter sales totalled \$196.4m (marginally lower than in the same period last year) while net earnings were \$49.1m, up from \$44.4m in

#### Simex aims to revive its fuel oil futures

The Singapore International Monetary Exchange (Simex) is drafting fresh proposals to revive its fuel oil contract following meetings with oil traders and major oil companies, industry officials said yesterday, reports Reuters from

Singapore, major oil companies, oil traders and bunker dealers in late June, the officials said.

Simex representatives met The exchange planned to change the grade of fuel oil

listed on the exchange, they

added. The new contract would

cover 3.5 per cent sulphur fuel

oil, in line with the bulk of fuel

(Prices from Amalgamented Metal Trading) M ALUMBRIUM, 99.7 PURITY (5 per tonnel

traded on Singapore's casb market, instead of the previous

in addition, Simex planned to adopt a narrower loadingdate range of days 11-20 each month for deliveries at nominated ports against the contract, compared with the previous 5-25, the officials said.

But Simex had yet to decide on a proposal for a procedure to determine the settlement price at explry. Once the draft for the new specifications is completed, it

will be sent to the Monetary

Authority of Singapore for

China might have to buy huy rice on the international market as a result of floods that

have ravaged its southern provinces, some regional traders said yesterday, reports Reuters from Hongkong. But others warned that it was too early to tell how extensive any damage to the rice crop had been and pointed out that domestic spot prices were falling, suggesting that rice supplies were still perceived to be

Any Chinese imports might drive up international prices, the traders said, but to what extent depended on the quantity that the Beijing authorities actually murchased Most of the flood damage has provinces while the main maize, wheat and soyabean farms in the north have been

a 9 per cent increase in

The plant also makes a sig-

nificant impact on reducing Southern's overall costs. It util-

ises low grade material mined

over the past 35 years and

stockpiled as waste rather than

being sent to the concentrator

plant. Leaching, however, has

revolutionised the economics

vate the naturally occurring

bacteria in the mineral dumps.

Southern is now able to extract

some 36 per cent of the copper at a cost of 30 cents a pound.

Using sulphuric acid to acti-

of processing the ore.

national copper output.

spared.
"We expect [China] to come into the rice market," said a leading rice trader in Bangkok. They'll be there, but we just don't know the volume of imports yet."
"I think there's likely be

some imports. Maybe rice, maybe wheat flour. It will take time to sort everything out," a trader at a major European commodity house in Singapore

ing more than \$2bn of damage

The floods have hit the provinces of Hubel, Guizhou, Zhe-jiang, Anhui and Jiangxi, caus-

Traders cautious on Chinese rice situation

and affecting an estimated 700,000 hectares of agricultural "It is going to boost the price

late 1995 (and which will be

expanded this year at an addi-

of rice, which is already high. but it's not possible to tell yet how much because we do not know the kind of volumes the Chinese will get," the Bangkok trader said.

One Singapore-based trader was still more cautious, "This may all just be hype," he said. on the weather market in the United States. Those [Chinese] regions damaged are mostly rice-growing areas and it may take several weeks before we get a clear picture of the situa-

Another trader raised the

#### Broker cuts 1996 base metals price forecasts

In a mid-year round-up of the metals markets, Billiton has lowered its cash copper forecast to a 1996 average of 98 US cents a pound from 105 cents originally. The actual 1995

its round-up. inally predicted. The market is per's movements during the asonal lull in demand now starting, says Billiton although it predicts a mild cents a pound this year from the original figure of 75 cents

nally and 28.6 cents in 1995.

#### COMMODITIES PRICES BASE METALS **LONDON METAL EXCHANGE**

Close	1467-68	1504-5
Previous	1469.5-69.5	1504-06
High/low	1467	1511/1502
AM Official	1467-68	1502-3
Kerb close		1503-4
Open int.	237,273	
<b>7otel daily turnover</b>	37,630	
E ALUMINIUM ALL	OY (\$ per toppe	1
Close Previous	1246-50	1280-85
High low	1250-55	1285-80
AM Official	1245-50	1283-84
Korb close	1243-30	1278-83
Open inf	5.482	1610-03
Total daily turnover	592	
E LEAD (\$ per tonre		
Close	788-89	793-64
Previous	785-6	792-3
High/low	784	796/786
AM Official	783.5-84.0	790-90.5
Kerb close Open int.	32,847	794-5
7ctal doly tumover	4.586	
NICKEL (S per to		
Close	7520-30	7630-40
Previous	7550-55	7654-55
High flow	7540.7530	7700/7600
AM Official Nerts alose	7525-30	7650-52
Open int	41.971	7615-20
Total daily turnover	9.253	
IN TEN (S pre treme)	3,230	
Clone	6355-60	6336-96
Previous High low	6375-85	6410-20
AM Official	6340-50	6415/6380 6385-90
Kerty closes	0.40-00	6395-400
Open est	10,248	6333-400
Total daily turnover	1.289	
E ZDIC, special hig		nonel
	1004 5-5 5	<del></del>
Close Previous	1004 5-5 5	1032 33
High low	1004 5 1003.5	1035/1030
AM (Wholat	1004-4-5	1030-30 5
Nerto close	1004-4-5	1035-36
Open int	69,760	
Total daily lumover	12,348	
E COPPER, grade A	LiS pre torine)	
Close	1993-98	1935-36
Previous	1963-65	1935-36
Happy Tune	- man	1940/1903
AM Official	1900-63	1929-30
Fort close		1922-33

RD 15 +255 - -

199.533 47,441

PRECIOUS METALS = LONDON BULLION MARKET

III LINE AM Official E/S rate: 1,5535 LINE Closing E/S rate: 1,5545

\$ pred 381,70-382,10 382 30-382 70 382 30 248 248 483 227 381 90 245 705 481 614 Day's High 383 00-303 40 Day's Low 381 50-381 90 Previous close 381 50-381 80 Loco Ldn Mean Gold Lending Rates (Vo USS)

1 month 329 70 333.63 512.00 518.20 337.65 524.80 345.63 **Gold Coin** 

\$ price 382.5-385.5 380 60-393.10

Precious Metals continued GOLD COMEX (100 Troy az.; \$/troy az.) prior change | 10 | 10 | 381.2 | -0.3 | 381.5 | 13.931 | 87.874 | 384.6 | -0.3 | 387.0 | 384.4 | 414 | 7.455 | 287.5 | -0.3 | 390.0 | 386.9 | 978 | 40.251 | 390.1 | -0.1 | 389.3 | 389.5 | 37 | 8.695 | 392.7 | +0.1 | 393.0 | 393.0 | 716 | 5.820 | 12.586197,487

-4.7 392.0 388.0 32 891 -3.9 396.6 390.0 421 21,010 -3.9 397.5 394.0 20 2.571 -3.9 403.1 401.0 1 2.289

PALLADIUM NYMEX (100 Troy oz.; \$/troy oz.)

SILVER COMEX (5,000 7 roy oz.; Certs/troy oz.)

Jul Ang Sep Dec Mar May Tetal

**ENERGY** 

E CAUDE OIL IPE (\$/barrel)

131 20 -4.20 134.50 131 10 454 6.694 133.20 -4.20 135.50 135.50 2 967 133.20 -4.20 - 12 134.25 -4.20 - 106

5019 -6.1 510.5 500.0 273 436 5036 -6.3 - 1 2 505.7 -6.3 5200 504.5 8.291 57,666 514.9 -6.7 524.0 513.0 911 22.154 523.2 -6.1 532.0 522.5 364 6.478 523.5 -6.1 - 108 5.500

436

911 22,154 364 6,478 100 5,500

■ COCCA LCE (E/torne)

1390 1422 1451 1475 1489 1494

25,310 81,122 238.0 5.326 22,240 238.0 1.139 10,531 234.0 335 5.931 232.3 5.067 24,285 233.0 278 2,937 13,636 76,138

1 539 12.567 30 11.267 HEATING OIL HIMEX (42,000 US galls ; clus galls ) 1,867 19,422 - 8,368 12,868 100,427 -0.75 17700 17475 3,733 11632 -100 17300 171.53 6318 17.55 -0.75 171.25 16075 1,939 9,565 - 170.25 16900 1,416 3,632 -0.75 171.25 168.75 1.939 95.96 - 170.25 169.00 1.416 3.852 - 189.50 169.50 463 1.751 - 169.00 168.00 1.020 5.573

15,678 59,995 MATURAL GAS HYMEX (10,000 CERES: S'COREN) 2900 2,775 11,403 41,747 2.540 2770 3887 22161 2743 2205 19513 684 12.531 636 15.053 575 11 577

III UNLEADED GASOLINE WHEN (42,000 US gate: clis gate) Yel let 62.80 +0.33 63.95 62.50 13.272 23.275 61.35 +0.52 62.10 61.10 4,601 13.353 5660 +0.50 58.95 58.25 56.90 +0.95 56.90 56.70 75.50 +0.25 55.50 55.40 54.85 +6.20 54.85 54.20

GRAINS AND OIL SEEDS WINEAT LCE (E per turne) change High Low Vol 110.10 +0.35 110.25 110.16 110.40 -0.10 110.50 110.40 112.40 -0.10 112.50 112.40

474.75 44.75 478.50 473.00 1,054 4,034 477.50 44.00 482.73 474.00 5,148 32,978 484.25 +1.75 4871.00 482.00 5,280 28,468 482.59 -0.59 481.50 482.00 28 4,151 458.00 +1.00 464.00 488.00 21 155 419.00 -4.00 424.00 418.00 54 1,875

MAZZE C87 (5,000 by mir; cents/560 bushel) 537.00 +6.00 546.50 525.00 3,596 11,516 402.00 -0.50 410.00 400.00 10,758 75,142 350.00 -1.50 360.50 348.75 32,049 176.37 358.50 -2.25 364.50 356.00 1,075 26,249 359.50 -2.50 367.00 359.00 232 5,046 359.00 -1.50 366.50 358.00 186 6,063 BARLEY LCE (E per torne)

SOYABEANS CET (5,000bs mis; conts/500) bushel) 764.25 +1.00 773.00 784.00 3.100 5.830 762.00 +2.00 779.00 760.00 8.653 30.565 744.75 +3.50 753.50 744.00 773.00 27,869 101,770 731.00 43.75 749.00 735.00 7754 8.156 746.00 +5.00 754.00 745.00 300 4454

71 25 34 915 \$\times 2395 2054 10.954 45.592 19.86 \$\times 1.152 34.522 19.86 \$\times 1.152 34.522 19.00 3.407 31.142 15.75 - 27.339 46,672 374,045 SOYABEAN MEAL CET (100 tore; S/tor) 241.5 +11 242.7 240.6 3,635 8,752 240.3 +1.4 241.5 238.0 5,326 22,240 238.3 +1.4 238.8 238.0 1,139 10,531 234.5 +1.7 235.2 234.0 335 5,911 232.4 +1.4 234.9 232.3 5,007 24,285 333.0 +2.1 234.7 233.0 278 2,937 POTATOES LCE (Extorme) 

-6 1105 1101 -8 1100 1085 -16 1180 1160 -2 1215 1213 -3 1240 1240 -3 1105

2790 -0.051 2790 -0.004 2755 +0.001 2750 -0.009 2775 -0.009 2765 -0 014 2795 2765

103.95 -0.05 - - -106.00 +0.10 105.90 105.90 107.95 -0.20 - -109.40 - - -112.15 +0.40 - -

SOYABEAN OIL COT (60,000bs: cents/fc) 2451 -004 2476 2450 6,012 3,830 2459 -007 2490 24,57 10,228 21,399 2480 -0.10 2510 2487 754 12,732 2512 -003 2529 2505 466 7,215 25.35 +000 25,67 3533 6,924 28,524 25,48 +0.08 25,78 25,55 744 2,646

1945 12584 37473 1090 10581 61567 1247 2,664 23,390 13 11 1 004 7,097 11 81 1 539 12,562

There was less general demand this week reports the Ten Brokers Association. Landed apart from a few selected brighter East Africars which held firm most other descriptors came to an easier market and lost between 2-6p/kg. Offshore good demand at firm rates, Cuotations: best available. 128p/kg, good: 113p/kg, good medium: 108p/kg, medium 95p/kg, low medium: 82p/kg, nom the highest prote realised this week was 126p/kg for a Kenya

-4 1042 1642 20 746 -3 1070 1080 385 43,445 - 1049 1043 112 42,335 +1 1051 1047 565 34,385 +2 1083 1085 49 20,227 +2 1083 1085 546 10,619 +6 1392 1393 16 +6 1451 1417 2,549 3 +6 1459 1445 756 1 +7 1481 1470 204 1 +7 1486 1462 1 +2 1492 1492 1 1 6,877 1 5,902 3,598 81,308 ■ COCOA (ICCO) (SDF s/torrie) 1645 375 1.204 1629 3.005 18,756 1595 1.100 4,775 1586 312 3,046 1537 232 1,348 1554 24 182 R/A R/A +15 1680 +25 1680 +21 1635 +19 1815 +15 1571 +8 1560 1673 1685 1622 1584 1554 125.15 +2.00 127.25 123.90 213 118.45 +1.95 130.00 118.50 3,900 1 113.50 +1.05 115.00 112.25 705 110.75 +1.20 111.75 100.50 130 103.85 +0.30 110.00 103.75 20 109.55 +0.15 110.05 110.05 4 968 4,767 5,025 1,799 -1.5 381.6 378.1 3.245 6.204 +0.8 354.0 352.0 519 8.534 +1.5 342.2 340.1 365 3.846 +0.7 356.0 333.6 508 4.237 +0.7 332.0 331.6 50 2.598 +1.6 329.5 329.5 1 775 N/A N/A SUGAR "11" CSCE (112,000b); perts/fbsi 11.89 +0.30 11.71 11.37 3,150 66,476 11.20 +0.73 11.21 10.98 2,581 35,112 10.86 +0.75 10.85 10.73 851 14,141 10.59 +0.75 10.87 10.52 647 11.583 10.38 +0.03 10.40 10.32 57 5,016 10.19 - 6 531 ■ COTTON NYCE (50,000fbs; cents/fbs)

70.50 +0.55 71.94 70.00 73 482 72.38 +0.31 73.00 71.85 1,052 7,228 72.96 +0.12 73.46 72.50 2,828 33,084 74 90 +0.15 74,85 74,00 495 8,834 75.20 +0.20 75.50 74.90 244 5,042 75.85 +0.20 76.36 75.90 12 1,563 654 81 1,452 269 115 125.00 -0.50 126.10 124.60 545 1,267 121.35 -1.10 121.25 120.76 1,425 10,765 118.40 -0.50 119.80 117.75 253 118.00 -1.00 117.70 118.00 42 117.80 -1.00 118.40 118.80 2 119.10 -1.00 120.00 120.00 9

> VOLUME DATA Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CET, NYCE, CME, CSCE and IPE Crude OR are one day in arrears. Volume & Open Interest totals ■ REUTERS (Base: 18/9/31=100) CRB Futures (Base: 1967=100)

> > Joi 4 month ago 249.25 na

GSCI Spot (Base: 1970=100)

MEAT AND LIVESTOCK ■ LIVE CATTLE CME (40,000ths; corres/the \$40 Doy's Fried Charge High Low Well left |
98,825 -0.400 67.200 68.725 3,501 35,879 |
98,825 -0.402 68.075 98.400 1,298 26,199 |
98,825 -0.225 88.800 14.800 7.85 12,338 |
98,850 -0.150 67.000 96.875 256 4,141 |
98,800 - 65.950 95.650 275 1,055 4,141 |

59.850 +0.525 80.050 59.200 2,050 4,958 58.550 -0.150 57.000 58.350 3,444 11,877 53.875 +0.225 53.950 53.350 2,408 7,181 55.150 -0.250 55.500 54.500 76.500 -0.625 77.500 76.850 75.250 -0.375 75.600 74.800

PORK BELLIES CME (40,000bs; cents/bs) A AND DESCRIPTION 83.125 +2.000 83.125 82.275 80.300 +2.000 80.300 79.200 81.025 -0.700 82.800 80.750 81.700 -0.250 82.000 81.700 82.975 -0.625 82.500 82.500

LONDON TRADED OPTIONS E COPPER Sep Dec 211 211 97 143 198 150 118 E COFFEE LCE Nov 153 185 219 125 107 61

Sep 62 41 25

Dubsi Brent Bland (dated) Brent Bland (Aug) W.T.I. M. OK. PRODUCTS NWE Heavy Fuel Oil Naphtha Jet fuel Diesel \$87-89 \$184-186 \$201-203 \$180-181 13.25-13.50

NATURAL GAS PM (0171) 359 8792 E OTHER \$390 00 95.0c 45.00c Lead (US prod.)

15.68

Tin (New York) Cattle (the weight) Sheep five weight) Pigs (the weight) 100 67n 112.50p 123.09p Lon. day sugar (rew) Lon. day sugar (wto) Barlay (Eng. leed) Malao (US No3 Yellow) \$311,30 Unq Unq Unq 93.00p 93.00p 338.00m 825.0w \$472.5z 8525.0w ens (US) 209.0

Wheat RUS Dark North Rubber (Augy) Rubber (Sepji) Rubber (KL RSS No.1) -5.00 Coconut Oil (Phil)§ Patra Oil (Matey.)§ Copra (Phil)§ 79.45c 430p 2 per tonne unless others e ringstoles, in Malaysean Sep & London Physical, close, \* Change on week

possibility that some of the rice crop might be salvaged in some Chinese provinces if the floods receded quickly. "I likely to be vulnerable to con-Billiton Metals has cut its 1996 price forecasts for all base methaven't really seen any impact als except lead, reports Ren-

average was 133.2 cents. 'As this year wears on, and it becomes clear that a substantial surplus is building, we believe that further losses will be recorded," Billiton says in

imports between January and Aluminium prices are also expected to be lower than orig-250,000 tonnes, while exports jumped 337 per cent to 80,000.

recovery during the final quar-ter. Cash aluminium prices are now put at an average of 70 and last year's 81.9 cents. Nickel is forecast to average 360 cents, down from 400 esti-

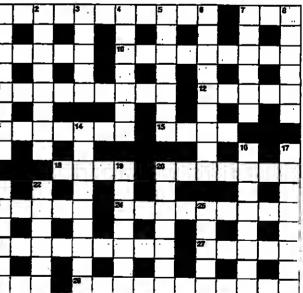
mated earlier and 374 in 1995, while zinc's forecast is cut to 48 cents from 50 cents and tin's to 290 cents from 300. The lead forecast is raised to 38 cents from 34 cents origi-

JOTTER PAD

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#### CROSSWORD

No.9,115 Set by HIGHLANDER



orders (8)

**ACROSS**  Nurse conceals part of foot that's ominous (8)
 Destined to be given holy is first to put in an appear-7 Forecast for summit, a light blow (3) 9 Drain off from lowest point and upset tax people (5)

10 Describes in detail the type
provided inside (9)

11 I can still go adrift a very

small amount (9)
12 A silly back scrubber (5)
13 One-time tennis champion working with football team 15 Humidity beginning destroy current unit (4)

18 Hairdresser might give one entry for pool (4)
20 Pet name for boy from Barce lona (7) 23 Football team's second half 17 not fit to be shown in museum building (5) 24 Whip let wrong chap become

26 Aide memoire about a surplus (9) Piace for staging sports in which there are national championships (5) 28 Animal to be pronounced upper class shortly (3)
29 Paddy has a true version mean on ire (6)
Learner driver left in the morning on a camel (5)

which shows level of heat (11)

the Great Lakes (7) 21 Opposed claim on two points 22 Tops of fresh eggs put round meat on fire (6)

DIVESTIT to Consume the

dvegment make To Ovestilute ( ) and the (DC) was out so, then the monett and name the way. विकास्य में अपन्यताक्षण है। ge question o from Size

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( p. Calendar acception of p. Calendar acception of the period of the pe

lem when speaking English backwards (7) 10 10 11 3 17 person 5 Pull fish over to sheltered side (7)
Seabird holding one to me turned up another seabird (9)
Stumble over something very la margina a de la companya de la co mies:0.4, ibiu : m3, 3 material Colleges in a service big in final exams (6) After all, not completely marcis 211 the defin related to letters (6) Breeze of the transfer of the Appropriate person to treat sex criminal? (9) ACCELERATION OF The PROGRAMME

16 Wildly fumble with AA torch Overrun appointment with one sister at the start (8)
19 Lady accepts bill for road surfacing (7) 20 Group takes bed over one of

A sort of card sharp holding

nothing (5) Greek character has no prob

Solution to Saturday's prize puzzle on Saturday July 20. Solution to yesterday's prize puzzle on Monday July 22.

# **GHANA**

# African trailblazer begins to falter

A lapsed recovery programme prompts concern about prospects for the continent as a

whole, say Michela Wrong and Michael Holman

Thirteen years after Ghana launched Africa's first economic recovery programme, the country long regarded by western donors as the conti-nent's model reformer is in dif-

Notwithstanding aid flows averaging \$500m a year, Ghana's annual GDP growth rate is falling below the minimum 5-6 per cent target. For the second successive year, inflation is running at an annual rate of more than 50 per cent, and interest rates are negative, forcing the International Monetary Fund (IMF) to step to and apply the screws.

auts 1996 base

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ROSSWORD

More is at stake, however, than the welfare of a country that was to the vanguard of the struggla against colonial rule, winning independence from Britain to 1957.

Ghana'a subsequent decline turned it into a symbol of Africa's malaise. But since 1983, when President Jerry Rawlings launched its reform programme, the country bas becoma synonymous with hopes for Africa's recovery.

And when in 1992 military rule gave way to multi-party elections and a return to civillan government, it gave encouragement to a continent struggling to combine struc-

Thus if Ghana falters in its trailblazing role, not only will international confidence in the continent's capacity to recover be jolted, the credibility of the donors' development strategy for Africa will also be eroded. For all the considerable ings' election, but the country

- maintaining peace and sta-bility in a troubled region, and reviving an economy devas-tated by mismanagement and comps - Ghana is falling short of its objective; sustained high growth, fuelled by high domestic savings and substantial for-

eign investment. The presidential and parliamentary elections, only six months away, come at a crucial stage to Ghana's post-independence history, and Mr Rawlings is in a dilemma

If he does not meet the tough conditions of the Pund's enhanced structural adjustment facility, which require severe cuts to state spending, he risks alienating the donors. and further undermining an already faltering recovery pro-

Yet to comply with the IMP terms risks an electoral backlash, certain to be exploited by opposition parties which believe they can unseat the man who has ruled Ghans for 15 years - provided, that is, they can form a united front. But Mr Rawlings is not the

only one in a dilemma. So, too, are the donors. They are caught between the need to put Ghana's reform programme back on track, and their fear that if they enforce the painful measures now necessary, they could threaten the re-election of the man most of them still believa is the best candidate for the job,

Just five years ago it could be argued that Ghana was poised for take-off. The Rawlings government had brought inflation down to 18 per cent, GDP growth to 1990 reached 5.3 per cent, and private invest-ment had risen to a 10-year high of 8.1 per cent of GDP.

But an opportunity was squandered. Spending in the run up to tha 1992 election, which marked the end of miltary rule, rose sharply. It helped secure Mr Rawl-

achievements of President has yet to recover from the

Four years later, it remains

to be seen whether the government has learned from the lesson or whether political expediency will triumph once again. A bumper cocoa crop - the highest for a decade - and a booming gold sector, whose exports have supplanted cocoa as the country's main export earner, have boosted economic performance. But resserting fiscal discipline still requires

tough measures. In a pledge addressed as much to amdous donors as to Ghanaians, Mr Rawlings has vowed not to repeat the mistakes of 1991-2.

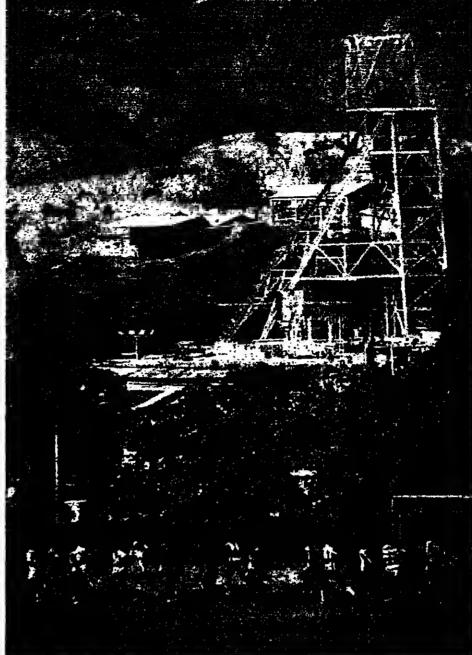
"This government has no intention of subordinating the nation's economic interests to political expedience," the president said earlier this year, a theme taken up by the country's finance minister, Kwame Peprah, when presenting the 1995-7 budget in June, "Our proposals today aim to avoid the populist path, the path of least short-term resistance," said Mr Peprah.

Under the terms agreed with the IMF, the annual rate of money supply growth is planned to fall from almost 40 per cent at the end of 1995 to 5 per cent by the final quarter of this year. Tight controls are imposed on the government budget, particularly in the road building sector, where overspending to the past has been one of the factors behind inflation.

Meeting these targets in any year would be difficult. In an election year, it may be unreal istic. The government's recent record, let alone its performance in 1991-2, does not inspire confidence.

Sceptics point to the disappointing performance in 1995. when budget targets, including a reduction of inflation to 15 per cent, proved little more than wishful thinking. Last year "represented one

-more year in a series of dashed economic difficulties. hones and frustrated expecta-



tions", commented the Centre for Policy Analysis, the independent Accra think-tank headed by Dr Joe Ahbey, a former ambassador.

The two main opposition parties, the New Patriotic Party (NPP) and the Peoples Conven-tion Party (PCP), are doing their best to make political capital out of the government's

while presenting joint candi-In 1992, Mr Rawlings's dates in the constituencies to

ensure a befty block of parlia-National Democratic Congress (NDC) strolled to victory in the mentary seats. parliamentary polls after the opposition withdrew, alleging

Most observers will believe it when it happens, for the rival-ries run deep, and the NDC has rigging of the presidential shown itself adept at sowing This year the NDC's task the seeds of discord among its will be a lot harder; the opposi-tion is not planning to beyout opponents.

Nonetheless, the NDC seems worried enough about its electhe exercise, and hopes to field toral prospects to be tempted a single presidential contender, to try to spend its way to vic-

One area of potential political patronage is investment in mads, which in 1995 rose to 54 per cent of the capital budget. amounting to 6 per cent of GDP. The 1995 programme calls for a sharp reduction in capital outlays to 3.9 per cent of GDP from 6 per cent in 1995, with the road construction programme taking the higgest

Under the agreement with the IMF, arrears in payments to constructors are supposed to have been cleared or rescheduled. But local commercial bankers are noticing that some contractors are once again borrowing to fund projects, with the intention of submitting their bills to government after

the election is out of the way.

Althnugh the political motives seem clear - roads win votes - the issue also goes to the heart of one of the biggest problema faced by African countries implementing structural adjustment programmes.

Weak infrastructures hamper development and deter investors, foreign and domestic. it is hard to see bow cuts in spending on roads is com-patible with development.

Yet, in sectors where private investors could provide management expertise and capital, Ghana is moving slowly, and state-owned enterprises such as Ghana Airways and the telecommunications corporation have yet to be privatised.

Meanwhile, all is not weil within the ranks of the NDC itself. Seventy-five MPs who were deselected at party primaries are flirting with the opposition or threatening to stand as independents unless they win "compensation". The clumsy handling of a drugs scandal at the Ghanaian embassy in Geneva and allegations of corruption among top officials have also tainted the government's image.

But most damaging to Mr Rawlings's re-election prospects is the mounting discontent in urban areas at the failare to achieve prosperity, and the impact on living standards

of rising prices. The picture is more encouraging for the president in tha rural areas, which have clearly benefited from the reforms - a greater proportion of the sales prices going to the cocoa farmers, and employment opportu-nities provided in the rapidly expanding mining sector and

timber business. Few statistics better illus-

#### IN THIS SURVEY

 Economy: back in intensive Investment: hint for foreign Banks: front-line fighters of

 Industry: hard times for enufacturers Gold: predator may be stalking Ashanti
 Privatisation: pace of set

offs quickens Stock exchange: sparki begins to fade Cooper bumper crop of persecue error Tourism; a peintui peat

 Politics: Rawlings faces waher test

Average for 1998 fun to June 30): \$1=1,553.58 cedia Production editor: Poy Terry

Average for 1995: \$1=1,200.43

provided by Unilever. Five years ago, between 60 per cent and 70 per cent of its sales were in urban areas; today that proporting has dropped to between 40 per cent and 50 per

The combination of rural backing and divisions in the opposition may yet be enough to see the president and his party back in power, albeit with the prospect of a much-reduced parliamentary majority for the NDC.

But if it is achieved through breaking the spending targets agreed with the Fund, the price will be high. As one diplomat pointed out, in 1991-2 "it took a year for the increase in money supply to work its way through the system. This time the whole economy is on an inflation footing and if they did the same thing again, the cedi would collapse."

If on the other hand, the gov ernment refuses to take the path of expediency, Ghana still faces a demanding period. As an IMF paper notes, despite the progress made during 1983 to 1991, "reel per capita growth averaged 2 per cent a year during this period. "At this rate, Ghana's average poor would not cross the poverty line for well over 30 years".

It may well be that this is all Ghanaians can hope for. But if this is the best that structural trate the resultant shift of edjustment can offer Africa. spending patterns than figures the continent faces a long haul.



#### **DIVESTITURE OF STATE-OWNED ENTERPRISES**

he Government of Ghana, as part of its overall Economic Recovery Programme, is pursuing a programme of divestiture of state-owned enterprises. The Divestiture Implementation Committee ("DIC") was established by the Government to implement and execute all Government policies in respect of divestiture programmes.

The divestiture programme ie intended to reduce the size of the public sector and to improve the performance of enterprises by mobilising private sector management and capital. The financial and managerial burden on Government will be reduced and the state will be able more efficiently to manage the business of Government. The proceeds from the sale of enterprises can be used to improve. among other things, infrastructure, health services and education.

#### MODE OF DIVESTITURE

information and documentation is collected on each enterprise listed for divestiture. Once that has been done, a decision is made as to the preferred mode of divestiture. This will usually be the sale of the enterprise's assets by competitive tender. However, other options include the sale of shares (particularly where the enterprise already has some private sector investors), the creation of joint venture companies between the state and private sector investors and the leasing to private sector investors of an enterprise's assets.

#### ACCELERATION OF THE DIVESTITURE PROGRAMME

The Government, through DIC, is committed to an acceleration of the divestiture programme. This is being achieved principally by means of outsourcing some divestitures to the private sector. DIC closely monitors eubcontracted work to ensure that it is carried out in accordance with OIC's procedures and statutory responsibilities.

DIC maintains a Register of pre-qualified firms to undertake work on divestitures. Except for small aesignments or in exceptional circumstancee, DIC, in the case of each assignment, draws up a short list of suitable firms appearing on the register. The short-listed firms are invited to submit proposals in connection with the assignment concerned and the winning firm is selected on the basis of those proposals.

#### INVESTMENT ENVIRONMENT

Private investors in the divestiture programme are benefiting from the macro-economic and sectoral reforme introduced under the Government's Economic Recovery Programme - most notably the rehabilitation of economic and social infrastructure, the liberalisation of imports and foreign exchange, as well as easy remittance of dividends, profits and fees abroad. In addition, trade regimes devoid of public intervention and reforms that have reduced company taxes have helped to make the buelness climate more conducive to investment.

#### INVITATION TO PARTICIPATE

The Government is fully committed to the divestiture programme and, accordingly, invites all investors, both local and international, to participate in it.

DIC will provide full details of the divestiture procedure to be followed in any particular case.

For more information on the divestiture programme, please contact:

**Executive Secretary** Divestiture implementation Committee F35/5 Ring Road East, North Labone P.O. Box C102, Cantonments Accra, Ghana

Tel: (233-21) 772049 (233-21) 773119 (233-21) 780281 Fax: (233-21) 773126

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#### **Economy:** by Tony Hawkins

# Back in the intensive care ward

Analysts are sceptical about the will to meet the tough targets set for next year

"If the government can keep its nerve and its hands in its pockets and oot in the till. then it might just make it." says a Ghanaian businessman. This widely-held view underscores the reality that Ghana will only meet the tough targets set for the next year and recain some of its former prestige as Africa's structural adjustment success story if the government's political will and management capacity measure up to the task. There are mixed signals on both counts which is hardly surprising less than six months before the elec-

Last month, Accra managed to convince the international Monetary Fund of its seriousness about maintaining fiscal and monetary discipline in an election year. Given the track record in Africa - and elsewhere - where governments have repeatedly turned a hlind eve to fiscal and monetary targets to huy votes, scepticism is

indeed, given the slippages that have bedevilled the economy since 1992, the Fund was no pushover, and the mid-term review of Ghana's Enhanced Structural Adjustment Facility (ESAF) loan, which should have been completed at the end of 1995, dragged on into the second quarter of this year with Accra being forced to seek waivers for missed perfor-

mance targets. However, the grounds for scepticism extend well beyond the matter of political will. The targets, rightly described hy one observer as "ambitious. involve transforming last year's marginal budget deficit of 0.1 per cent of GDP into a surplus of 2.4 per cent (or 0.6 per cent excluding privatisation proceeds), to be achieved by a combination of spending cuts, especially on road construction, increased revenue from privatisation, corporate taxes (including a substantial back payment of company tax hy one of the hanks) and

higher tax receipts from cocoa. There will be salary savings, too, partly from the governmeot's wage deal with the civil pay rise - less than half the headline inflation rate in the first four months of the year and also reflecting reduced payments for terminal beoefits. The counterpart of fiscal restraint is the plan to bring

down the rate of money supply

growth from almost 40 per cent

at the end of 1995 to 5 per cent hy the final quarter of this year. While this looks amhitious - money supply growth actually accelerated marginally in the first quarter of 1996 - the authoritles insist that they are on track. Reserve money, the benchmark used to target the money supply, declined some 6 per cent in the first four months of the year,

suggesting that the central

Balance of payments (\$m) 1.227 1,431 1,597 Cocca Timber 320 165 390 190 480 212 Imports 1,580 1,687 1,947 350 353 256 Net services -384 409 263 -405 305 Official transfers 239 -266 -142 -211 426 429 Net capital 326 184 284 115

ted also to maintaining positive real interest rates as part of the plan to mobilise savings and restrain demand. Bankers, husinessmen, diplomats and opposition politicians point out that money market interest rates - and even more so, bank deposit rates - are well below the headline inflation rate of around 65 per cent for the January-April period. They accuse the IMF of resorting to smokeand-mirror tactics to demonstrate that the underlying (seasonally adjusted) inflation rate is, in fact, about half the headline rate, enabling it to claim that interest rates are already positive. But that claim carries little credibility when the Fund Itself is forecasting annual headline inflation this year of

The authorities are commit-

Much of this sounds - and is - immensely technical, it is difficult to escape the conclu-

Source: Ball cant weakness of adjustment programmes; a short-termist approach that neglects the investment in physical and human capital necessary to exploit the benefits of macro-

nic stability. Indeed, reflecting the fall in government capital spending, investment will decline as a ratio of GDP this year to below 18 per cent, which might he enough to secure output growth of around 4.5 per cent a far cry from the 8 per cent growth target set out in Ghana's Vision 2020 programme.

While official figures show that Chana has managed to reduce poverty by cutting the proportion of the population living in poverty from 36.4 per cent in 1987/8 to 31.5 per cent in 1991/2, this is purely a rural phenomenon, reflecting the recovery of the cocoa industry, in particular, in urban areas, poverty deepened slightly and

	Money supply and inflation rates									
	kriftet	ion	Money supply							
	Target % p.s.	Actual % p.a.'	Target % p.s.	Actual % p.a.						
1990	1\$	36	10.5	18						
1991	20	10	15	20						
1992	5	13	12	53						
1993	20	28	0	27						
1994	15	34	5	46						
1995	19.5	34 71	14	37.5						
19962	45	na	17	n.a.						
Year or y	en; * Terpeta	<del></del>		Source: MF						

sion that the Fund's computers have been allowed to dominate its judgment. The very precision of some of the targets in a country where the actual economic database is profoundly weak suggests that fine-tuning has taken precedence over

This is not in question the hroad thrust of the policy. which is undoubtedly appropriate from a short-term viewnoint Many, how rever, will be unhappy with its longer-run implications, especially the reduction in public sector investment spending, which needs to be increased because It is clear that private sector growth is being constrained by Ghana's weak infrastructure.

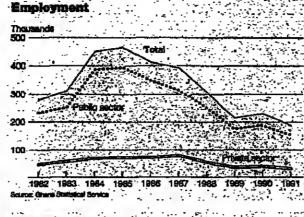
in the 1996 budget, recurrent spending is up slightly at 17.1 per cent of GDP, with interest payments rising to 4.7 per cent from 4.3 per cent last year. But development expenditure is down to 3.9 per cent of GDP from 6 per cent last year, with the result that overall public spending falis to 21.4 per cent of GDP from 23.7 per cent in 1995. This underlines a signifi-

this trend may well have been maintained over the past few years, though no meaningful numbers are available to show what has been happening.

in the decade to 1991 - the most recent year for which there are figures - employment grew strongly until 1985 when it peaked at 464,000, before collapsing dramatically

If the official statistics are accurate the public sector she some 240,000 jobs in the five years to 1991, while private sector employment, which accounts for only 17 per cent of the total, fell almost 50,000 to only 31,000.

Official studies show self-employment, especially in services in rural areas, compensating for this situation with the informal sector producing at least a fifth of GDP. But sustained poverty reduction will only be achieved by increased formal sector wage employment. Sadly, the Ghann Investment Promotion Centre's experience suggests that only 15,000 new jobs have been created by the 205 new projects approved



GDP growth

since September 1994, implying that it costs \$15,000 to create a

With savings levels averaging less than 10 per cent of GDP, it is obvious that private foreign investment is the key to sustained recovery. Under current conditions, Ghana cannot hope to attract sizeable foreign inflows except in the mining sector, and possibly, through privatisation, though here too the number of ventures likely to win foreign support is relatively small. Given the country's rundown infrastructure and narrow domestic market, multinationals seem unlikely to be attracted by manufacturing opportunities, especially since there are formidable transport and tariff obstacles to servicing the

Infrastructural shortcomings will constrain efforts to develop export-driven manufacturing activities in Ghana's recently-launched free zones, especially since labour is not particularly cheap by Far East standards. The minimum wage is just over \$1 a day and while this is likely to fall with the continuing depreciation of the cedi, it is difficult to see Ghana coming globally competitive in the medium term, other than in mining and

regional market from Chana.

Despite this, the external payments situation has Improved mainly on the strength of strong gold and timber exports and the recovery in the cocoa sector. However, with export volumes having grown strongly in only two of the past six years, the bal-ance of payments has been sustained by weak import demand - import volumes fell almost 20 per cent in 1993/4 - and by sharply higher export prices which have risen more than 40 per cent since 1992.

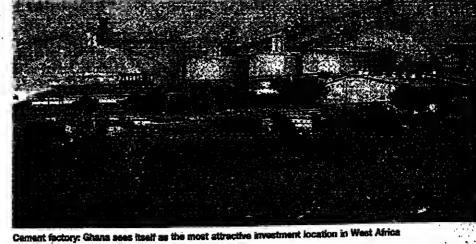
With gold export growth likely to slow as production flattens out at Ashanti's Obution being cut for environmental reasons. Ghana needs to expand non-traditional exports which last year were worth \$150m, of which a third was

electricity. Britain is far and away the country's main trading partner, accounting for almost 14 per cent of total foreign husiness, followed by Germany and the US with hetween 9 per cent and 10 per cent each. Two thirds of Ghana's exports are sold to industrial countries which supply 60 per cent of imports, implying scope for trade diversification, especially in Africa and Asia.

The external debt situation has stabilised, too, with the foreign debt/GDP ratio falling to 80 per cent last year from 95 per cent in 1994, while, after reaching 36 per cent of exports in 1995, debt-service payments are forecast to decline to 21 per cent by 1998. With real per capita incomes

having risen 8 per cent since 1990, Ghana is performing better than most snb-Saharan economies, but as Ghanaians themselves are the first to point out, that does not mean very much. Not only that, hnt having graduated out of structural adjustment in 1991, the country is now back in the IMF's intensive care ward. And even if the administration does put economics before politics over the next six months to the point where relative price and exchange rate - stability can be restored, it will have won no more than a minor skirmish and a brief breathing In the absence of Asian-style

foreign direct investment inflows, the economy will continue to expand at 4 per cent to 5 per cent annually while the living standards gap with the world's dynamic economies continues to widen. Surely. there is more to "successful reform than this?



■ Investment: by Tony Hawkins

# Foreign capital needed

Ghana sees itself as a gateway to the **Economic** Community of

West Africa states

Ghana's capacity to transform aid-driven structural adjust-ment into sustained economic growth hinges on its ability to increase very substantially private sector savings and investment. The track record for the first five years of the 1990s is less than inspiring - private sector investment averaging 4.9 per cent of GDP funded by private savings averaging a mere 5 per cent of GDP.

If the economy is to grow at the 8 per cent rate targeted by government, investment levels will have to double from the 15 per cent average - public as well as private - achieved between 1991 and 1995 to around 30 per cent a year. in a low income economy, with per capita incomes growing at only 1.5 per cent annually, private savings are not going to fuel

Nor for that matter will public sector investment do the trick given the commitments to e hudget surplus, to cutting get and to using privatisation proceeds to repay public debt. Over the next three years (1996-1998) central government capital spending will decline to less than 4 per cent of GDP from 4.5 per cent over the past

four years. So how can the economy double its investment rate so as to accelerate economic growth? Aid is one possibility, but an unmomising one given not just the low productivity of aid, hut also the worldwide cutback in disbursements. Indeed, Ghang's own forecasts of official grants and long-term loan dishursaments point to a decline of some \$65m annually from recent levels, leaving foreign direct investment to provide the necessary impetus.

Yet here, too, the IMF's numbers are no more than modest. The Fund projects direct investment of less than \$40m annually over the next three years, implying that - unless these figures are substantially wide of the mark - Ghana's GOP growth rate is unlikely to increase significantly from the 4.5 per cent a year achieved

All of which explains why Ghana has moved decisively to smarten up its investment act and follow east Asia's example in attracting significant inflows of foreign capital. Since the new Ghana Investment Promotion Centre (GIPC) law came into effect in September 1994, some 205 projects have been registered with the GIPC representing investment of 225m. Not all of this is foreign capital; roughly o third of the

\$225m (about \$76m) represents new foreign equity, and half (\$112m) foreign loan capital. The belance of \$36m (16 per cent) is made up of the local contributions of joint-venture

Most of the registered pro cts - more than 70 per cent are joint ventures with the balance of 27 per cent being foreign-ownad wholly

These numbers, which refer to registrations as distinct from actual investments. understata the true position hecause the GIPC does not handle the all-important min-

By African standards, the implementation rata is high. By March this year, the GIPC had visited 116 (56 per cent) of the registered projects and found that just over 80 per cent had actually taken off. This compares with a figure of just over 50 per cent in Zimbabwe. Chana sees itself as the most

attractive investment location in West Africa, where it believes it can fulfil a regional gateway role, attracting foreign companies wishing to penetrate the 16-nation Economic Community of West Africa States (Bcowas) market.

Ghanaian policy-makers are right to focus on export-led activities, given the narrow domestic market (\$7,3hn) and low levels of per capita income But regional investment has

little appeal in the light not just of Ghana's depleted transport and inadequate energy infrastructure, hnt also the many obstacles to cross-border trade within Ecowas. One busi-nessman says it takes 11 days to send a lorry load of products to Cote d'Ivoire - a journey that in Europe would take a day and a half. Hopes of attracting regional investment are unlikely to be realised until hoth the infrastructural and administrative obstacles to cross-border activity are overcome. That is going to years, if not decades.

Along with many other African countries, Ghana is setting np export processing (free) zones in an effort to attract joh-intensive export-oriented investment. Free zones are being set up at Tema and Takoradi and there is also provision for stand-alone single factory zones, wherehy a business, exporting at least 70 per cent of its output, can apply for its factory to be destives include a 10-year tax holiday, with a maximum subsequent tax rate of 8 per cent. compared with the standard corporate rate of 35 per cent.\_

There are no restrictions on equity ownership in the zones. profits are freely remittable with no withholding taxes payable on dividends. Employers are free to negotiate wages and working conditions with workers and labour unions, provided such terms are consistent with international Labour

Organisation conventions. The 10-year tax holiday provision also applies outside the free zones to such activities as cocoa farming and production, cattle ranching, and the production of tree crops. Tha 8 per cent incentive tax rate applies also to income earned from non-traditional exports, while hotel profits are taxed at 25 per

Kala Marso

Bir Hope

It is questionable whether incentives are decisive in influencing investment location decisions in Africa in the mid-1990s. The reality is that most of the region's foreign investment is resource-intensive and location-driven - mining, energy, tourism, agriculture and agro-processing. Export platform and gateway investment is deterred by weak infrastructure, scarce skills, especially management, and the quality of labour which, increasingly, matters more than labour costs alone.

While Ghanaian officials highlight their country's strategic location as an island of peace and stability in a politically volatile region, this is something of a double-edged

If the large markets in the region, espacially Nigeria (\$30bn) are unattractive for reasons of political instability then multinationals are 'as likely to stay away from the region altogether and export into the West African market from outside, rather than risk investing in Ghana, on the off chance that it will prove to be a viable platform for exploiting the Ecowas markets.

None of this suggests that Ghana is about to attract the levels of foreign direct investment necessary to transform It from a 4 per cent to 5 per cent growth economy, driven by aid and mining investment, to a 6 per cent to 8 per cent growth economy, driven hy substantially higher levels of private

Investment regis	trations (Septem	ber 1994-Ma	rch 1996)
Sector '	Number	Value (\$m)	% of total
Manufacturing	55	89.9	40.0
Services	61	75.7	33.5
Construction	22	28.4	12.7
Agriculture	20	23.8	10.7
Other	47	7.3	3.1
Total	205	225.1	100.0
	Sour	er Ghane knestment	promotion centra

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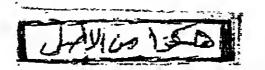
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filescy to win.

become n real democratic state supported by a healthy economy and n middle class capable of ensuring social stability," says Emil Constantinescu, who heads the centre-right Democratic Convention (CDR), the main opposition coglition. Mr Constantioesca is the CDR's candidate in the prestdential elections - a race analysts expect the incumbent lon

While short of funding, the CDR as well as Petre Roman's Democratic Party, the main component of the recentlyformed Union of Social Democrats, the second opposition group, face the elections better organised than four years ago. The explosion of private local and national radio and TV sta-tions, breaking the state's monopoly of the airwaves, has also helped the opposition. However, it remains solintered. Dorel Sandor, head of the local CPSCA think tank,

autumn, opposition politicians must make alliances and show they can work together effectively on Bucharest city coun-cil and in the other areas won

The PDSR had hoped that, after the next elections, it would be able to duch its hardline left-wing and far right allles. But its poor performance last month suggests it

may have to rely on extremist

parties, including an anti-Hun-

garian nationalist group, to

stay in power. This means lit-

tle progress is likely in agree-

ing o much-delayed basic trenty with Hungary before the autumn while the presence of

nationalists in the government

has also complicated similar

treaties with Russia and neigh-

Tha trenty has also been

dalayed over the unclear status

of a small Black Sea island

which might influence division

of International waters

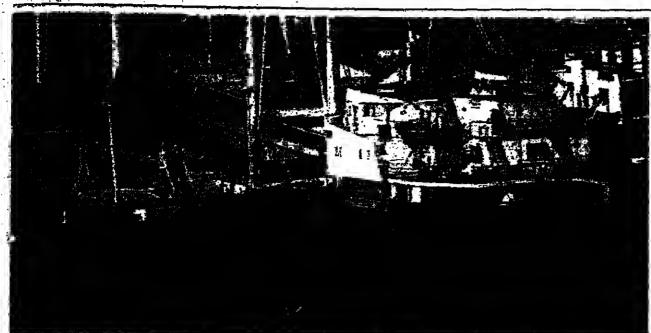
between the two countries. Oil

and gas prospects make this

bouring Ukraine.

in local elections.

# ROMANIA



# The political heat is on

With elections in view and support for the ruling party waning, reforms are falling victim to populist measures, say Virginia Marsh and Kevin Done

This year the Romanian summer will feel hotter than usual. Although the autumn's elections are four months off, the campaign is under way, sound but unpopular economic policy decisions are being sacrificed to the race for yotes, and the country's splintered political forces are busy negotiating pacts and choosing their

presidential candidates. The poor performance of the ruling Party of Social Democ-Lacy (PDSR) in last month's local elections, the first nationwide polls for four years, has given centrist and centre-right opposition parties their greatest chance yet to win power at the national level and end the former communists' seven

years in government. This increases pressure on the PDSR's minority government to take populist measures at the expense of market-led reforms. These have already included wage increases in the state aector, fixing the exchange rate of the leg at arti-ficially high levels, delays in raising centrally-controlled energy prices and channelling huge subsidies to agriculture.

Such measures are taking their toll on the country's fast-growing but fragile economy. Florin Georgescu, finance minister, has been reluctant to abandon publicly an end-De-cember inflation target of 20 per cent and insists that restructuring of the state sector is continuing apace.

Independent analysts, however, sey inflation may rise to 30-40 per cent and that, in spite of the efforts of the motivated but small government restructuring agency, restructuring has slowed, reflected in the fall in inemployment to 8 per cent, continuing large stocks of industrial goods and high inter-enterprise debt.

However, the looming presidential and parliamentary elections, due on November S, are proving a powerful incentive to complete a mass privatication programme, the government's

The scheme will transfer to the population stakes of up to 60 per cent in nearly 4,000 state companies, accounting for nearly a third of gross domes-tic product in 1994, In parallel, an over-the-

counter market is being set up, with US help, to deal with the huge trading volumes expec-ted. Capital market development has also been helped by the National Bank of Romania's recent bond issues, its first on global markets in half a century.
Although the programme

will privatise majority stakes in only a portion of the companies, it should break the state's grip on much of the economy and raise the share of the private sector, especially in industry. At present, the private sector accounts for about 45 per cent of GDP but is concentrated in agriculture, services and trade, providing just 18 per cent of industrial output.

The programme is also being viewed with interest by foreign investors who have exhausted many of the best acquisition possibilities in central Europe. "The heat of the searchlight is passing from countries like the

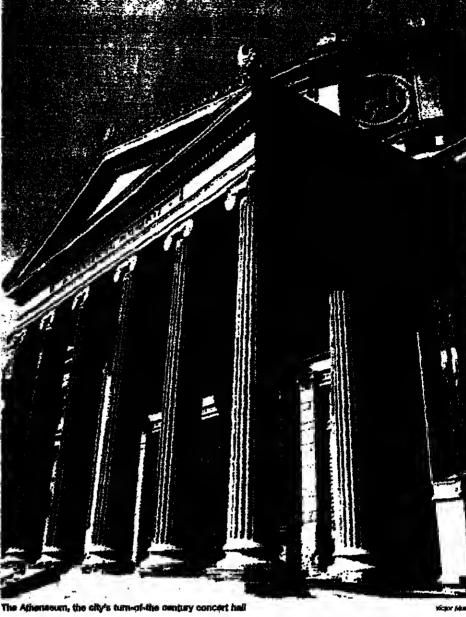
Czech Republic and Hungary to Romania," says Henry Rus-sell, resident representative of the European Bank for Reconatruction and Devalopment. "But Romania must get through its election year wob-

Although the government frequently states its commitment to foreign investment, companies say it remains diffi-cult to negotiate with the State Ownership Fund (SOF), tha main privatisation body, and that large deals often go ahead only after the intervention of senior politicians,

This is a hig problem in a country in desperate need of capital to raise low local living standards, improve its infrastructure and capitalise on its human and natural resources. "Much of the private sector

consists of 'mom and pop' type

enterprises with little capital fledgling democracy; the failor know how, dependent on the energy of the individuals who run them," says a western ure to develop sufficiently the institutions of a market economy and a modern state. banker in Bucharest. "At the "People complain about the bureaucracy in Romania," says a former senior official, now working in the private sector, same time, most foreign investors so far are primarily interested in consumer goods and the domestic market. But the "Our problem is we have no proper bureaucracy. There are anthorities are pinning their hopes on export-led growth," no rules, no clear systems,



he says, "A main concern has to be the absence of long-term, large-scale investment in old and new export industries."

The difficulties at the SOF

highlight one of the greatest

short-comings of Romania's

institutions don't work and corruption is huge," He balieves this can be resolved only by a change of govern-ment. "I still consider the PDSR has the best people," he saya. "But the ruling party needs to know what it is like to be in opposition,"

It is hoped that, whatever the election results, the future executive will enjoy more political support than the present administration. Prime Minister Nicolae Vacaroin only recently joined the PDSR and few members of his cabinet are senior party officials, contributing to a power vacuum at the heart of government. This has slowed decision-making and encouraged a lack of transparency. Together with its hesitant

pursuit of market-led reforms,

this has led opposition parties to accuse the PDSR of developing a Latin American-style system, bent on keeping Romania at the back of the queue for European integration. "In this year's elections Romaniana can choose between two directions - a

South American-type state led

strategically important.
As well as adding to on-going axploration projects being undertoken with the help of western oil companies, Romania hopes to make the port of Constanta a gateway for energy and other raw materials from the central Aslan republics. "This is a huge strategic advantage Romania can offer Europe," says Teodor Melescanu, foreign minister. He says the country hopes to begin negotiations for EU and Nato membership at the same by a cynical, rich and corrupt time as the more developed oligarchy...or they can opt to central European states.

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# fragile condition persists

Despite a recovery. inflationary pressures continue and growth may start to slow

Romania is in its fourth year of economic recovery from the deep recession that followed communism's collapse. Last year it outperformed most other central and eastern European countries with a growth in GDP of 6.9 per cent, but the economy is still dangerously distorted. It is clear that the pace set in 1995 cannot be sustained and growth is forecast at a more modest 4 to 4.5 per

Overbeating of the economy in the second balf of 1995 has presented the authorities with tough inflationary consequences and the central bank has been forced to tighten monetary policy with actions which may prove unpalatable in an election year.

Publicly government ministers repeat that the aim is to cut the inflation rate year-onyear from 27.8 per cent at the end of last year to 20 per cent by December, the target agreed with the IMF. But in private, officials accept that the target is already impossible to meet as inflationary pressures con-tioue to build with consumer prices jumping by 5.3 per cent in May alone. "The experience of other transition countries has been that it is much more difficult to reduce inflation from 30 to 20 per cent and from 20 to 10 per cent than from 70 to 30 per cent," says Mugur Jsarescu, governor of the

National Bank of Romania. The Romanian currency, the leu, is under pressure, Despite drastic measures taken to control the foreign exchange market, the central bank appears unable to bring the official and unofficial exchange rates in tence of an informal dual

of contention between the Romanian authorities and the IMF, which is unhappy with the recent resort to restrictive

It is withholding the second \$70m tranche of the current stand-by loan until the interbank foreign exchange market is functioning properly.

nomic analysts said that "the restriction of foreign exchange licences has damaged Romania's image as a country moving

rate has only recently moved just above 3,000 lai to the US dollar, the unofficial rate appears to have fallen to about

The overbeating economy forced the authoritles into a hasty rearguard action late last year to the face of a rapid deterioration in the current account of the balance of payments, with the deficit jumping to \$1.292bn in 1995 from m a year earlier.

While exports grew by 22.2 per cent last year to \$7.5bn, they were outpaced by a 33 per cent jump in imports to \$3.75bn, forcing the government to apply the brakes. Interest rates were pushed up. the banks' foreign exchange reserve requirements were raised, government expenditure was reined in. Some import tariffs were raised and many tariff exemptions

These measures resulted in a

A recent report by the Wash-

While the official exchange

Between April 1995 and April

1996 the nominal exchange rate against the dollar fell from 1,879 lei to 2,913 lei. Further declines appear inevitable in with the money supply growing strongly and the central bank beset by government pressure to loosen monetary policy in an election year. High interest rates have bad only limited auccess in slowing the inflationary tide.

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Budget balance (%GDP)	-4,6	-0.4	-1.9	-3.6

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GDP growth (%)	-10.0	1.3	3.4	6.9
Budget balance (%GDP)	-4,6	-0.4	-1.9	-3.6
Inflation (%)	199	295	62	27.8
Exports (\$bn)	4.4	4.9	6.1	7.5
Imports (\$bn)	5.8	6.0	6.8	8.6
Current account (%GDP)	-8.0	-4.5	-1.4	-3.6
External debt (Sbn)	3.2	2.2	5.5	6.6
Debt/export earnings (%) Foreign reserves	85	39	77	74
(excluding gold) (5m)	826	995	2,086	1,705
				Source: Modit Lynd
fall in imports of 17.3 per ce	nt Last v	ear exports to	and year by a	ong and harsh

in the first five months of 1996. reducing the current account deficit. However, tha country's exports are highly dependent on imports, not least semi-finished products and oil and gas (although this year's opening of the first reactor of a Canadi an-designed nuclear plant in Cernavoda should cut energy import bills) and the squeeze on imports hit the country's foreign trade.

As the growth rate slowed. exports, too, fell by 11.9 per cent year-on-year in the first five months, although the continuing rise in industrial production suggests that some

exports are not being recorded. Romania has made much progress in re-orienting its foreign trade towards the west although, as in many other aspects of economic reform and restructuring, it lags behind fast-track transition countries in central Europe.

imports from the European Union both accounted for more than 50 per cent of the total, whereas in 1990 the EU's shares were 32 per cent and 20 per cent respectively.

Imports from Russia - on which Romania still depends for energy supplies - rose by 20 per cent last year. Exports are dominated by textiles and garments, which rose by 28 per cent last year to \$1.48bn, metals and metallurgical products, which grew by 31 per cent to \$1.39bn, and by chemicals, and wood and furniture.

Agriculture still contributes a higher proportion of GDP at 20 per cent and employs a larger proportion of the workforce at 35 per cent than in any of the other central and east European countries outside the former Soviet Union (with the exception of Albania). After vest, it has been hard hit this

ter and the government has had to boost the flow of cheap credit to the sector, undermining monetary policy.

the same of the sa

Restructuring agriculture remains a daunting task, as in much of Romania's stateowned industry. Structural reform - including privatisation - is in its infancy. The private sector share of GDP is estimated at about 45 per cent and although rising, it is still well below other countries in central Europe.

Restructuring of state industries is under way but at a slow pace, and many remain loss-making, highly inefficient and burdened by beavy arrears. A recent study by IBCA, the European credit rating agency, said: "The degree of political consensus behind reform is not yet sufficiently robust to overcome the bureaucratic and other obstacles that can be put in its way."

Privatisation: by Virginia Marsh

# A surprising success

The programme has attracted a far higher level of public participation than was predicted

Far from being the flop that its critics predicted, Romania'a ambitious mass privatisation programme has so far been relatively successful, albeit well-behind schedule. Even government officials were surprised at the high-level of public participation in the scheme ne 85 per cent of those eligible entered bids.

Romanians could use free privatisation coupons to bid for stakes of up to 60 per cent in nearly 4,000 companies or could invest in one of five regionally based funds. Sepa-rately, the State Ownership Fund (SOF), the main privatisation body, is selling off at auction or through direct nego tiation the remaining stakes in the companies, which together represented nearly a third of gross domestic product in 1994.

Majority stakes of 51 per cent in about 550 of the most attractive companies have been set aside for strategic investors. The European Union's Phare programme is funding Capital, a local investment bank; the UK's Charterhouse and Société Générale of France to advise the SOF on the sale of 40 of the companies, mainly in the export sector, to foreign inves-

The SOF began cash anc-tions last December but potential investors say it remains hard to negotiate with the fund and there is frustration at the slow pace of sales.

"It's an election year and the SOF's shutters are coming down. We're seeing a bit of a return to Romania for the Romanians, But Romanian business doesn't have the money to buy everything. The country does need foreign capital." says a western lawyer.

for the problems on the mar-

ket, including the violation of

forex regulations by some

banks and the central bank's

own acute shortages of hard

currency. However, the coun-

try's politicians have not dis-

guised their desire for a stron-

ger leu while state banks have

seen advantages in protecting

some of their industrial cus-

tomers (and thus their loan

portfolios) from increases in the price of essential imports -

despite the overall cost to the

economy of an overvalued cur-

rency.
This led one western banker

to say: "The exchange rate pol-

icy can only be seen in light of

the upcoming election. It defies any economic logic."

two significant potential investors but the number of deals that comes to fruition is negligible...There has to be a will ingness to sell at a more realistic price."

Meanwhile, Romanians have begun to receive notification of the shares they have been allotted under the programme. It is understood that about a quarter of the companies were fully subscribed with about 200 over-subscribed - up to 20 massively so. Sorting out who gets what is one of the many headaches the authorities must still

The most critical issue remains ensuring there is a

It is absolutely critical the OTC works and that capital markets take off

mechanism that allows trading of shares to take place. This is a significant challenge given that the scheme has created 15m shareholders - more than in most European countries. Unlike the Czech scheme, the programme did not allow Romanians to pool coupons and bid for blocks of shares.

Trading is due to take place through a US-spousored overthe counter market called Rasdaq, a Romanian version of lag, which was originally due to become operational earlier this year. As the market is to be dematerialised, one of the most important tasks is to establish a share register again complicated by the huge numbers involved as well as by the country's poor communica-

"It is absolutely critical the OTC works and that capital markets take off," says a western adviser. "The MPP is important as it transfers ownership of companies to individuals. But what Romanian companies need to survive is

Given tha difficulties of negotiating with the SOF, the scheme will giva investors their greatest chance to date to acquire local companies.

This is a unique opportunity," says Valerin Velciu, president of Unicapital, a local securities company. "We estimate that up to a third of Romanians will want to sell their shares immediately which means that prices will be low. This is the time for foreign financial investors to

Like other brokers, however he is concerned lest the delay in setting up the OTC leads to parallel, unregulated trading which might further damage the reputation of local capital markets. The sector has taken some

thing of a battering in recent months, following problems at mutual funds and the disappointing performance of tha Bucharest Stock Exchange which re-opened last November for the first time since the second world war.

After getting off to a reasonable start, both turnover and prices of the 13 stocks listed on the exchange have subsequently plunged. However, the SOF recently

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Secretario par l'anno de la company

agreed to hold at least 10 initial public offers over the coming months - with technical istance from the UK's Know How Fund - to a hid to boost the exchange'a liquidity, as well as the credibility of capital markets in general, before Rasdaq opens,

After initial friction between the proponents of the two markets, it is intended that companies will graduate, in time, from Rasdaq to the BSE which hopes eventually to list the country's leading public com-

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**Banking and finance:** by Virginia Marsh

# Big four still rule the roost

Still dominated by state institutions, the sector cannot yet fully support a changing economy

Romania's pascent financial sector has reached s critical stage. Confidence has been eroded by trouble at saveral banks and mntual funds, the inter-bank foreign exchange market has all but ceased to function while confidence in capital markets has been hit by sagging prices and low turn-over on the recently re-opened Bucharest Stock Exchange.

At the same time, the sector is being buoyed by the entry of several international banks

with them, as well as by the country's successful reentry on to international capital markets and prospects of a lively over-the-counter market later this year once privatisation vouchers are exchanged for shares in nearly 4,000 state companies.

For the time being, however, the sector is not sufficiently developed or robust to support Romania's fast-growing but cash-strapped economy. "The continuing high cost of borrowing and the weakness of local capital markets affect the competitiveness of Romanian industry more than anything else," says Ion Florescu, chief executive of Capital, a local investment bank part-owned by Wasserstein Perella of the US and one of three local banks in which the European Bank for Reconstruction and Development bas an equity

"There is a great need for more imaginative financial solutions and products," says a western banker. "By now, for example, the atate banks should all be going to for debt for equity swaps to help tackle the problem of bad debts."

The government'a continu-

For example, analysts say the biggest crisis to hit the sec-

While irregularities at Dacia Felix first surfaced in the bank's 1994 balance sheet, it

Mugur Isarescu, central bank governor, admits the bank was slow to tighten supervision but says the legal framework and the need to protect small tovestors gave the authorities little room for manoeuvre. He says a deposit insurance scheme to protect savings will be created over the summer and that the authorities will introduce regulations enabling banks to be declared bankrupt. "Strengthening banking supervision is our most important policy goal at present," he says.

Similarly, the securities commission is tightening regulation of mutual funds, after a to the dollar.

insider trading at FMOA, once the fund was created in a legislative vacuum - it was set np two years before the securities

plummeted, analysts welcome the authorities' apparent determination to get tough. "It's good that these problems emerged now. Later on they could have been more dangerous," says Valerin Velciu, president of Unicapital, a local securities' company and mem-ber of the Bucharest Stock

Despite the emergence of pri-

ing to central bank figures. In 1994, the government pledged to privatise RDB, the smallest of the four, and another bank as a condition of a financial and enterprise sector loan from the World Bank. Two years on, this has not hap pened, ostensibly because parhament has yet to pass a bank

give up control of state banks. banker. "Tha government is afraid it will lose too much control by selling the banks." This year, for example, the

required under Basle rules.



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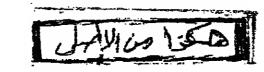
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ing influence over state banks, as well as inadequate regulation and legislative gaps are among the factors behind the sector's present problems.

tor to date - the insolvency of Dacia Felix, once a leading private bank - could have been avoided had action been taken

was not put under central bank supervision until last November and its management was only replaced this March. Meanwhile, the central bank has had to pump into the bank 1,000bn lei (\$330m) - a huge amount in a country where the average wage is less than \$100 a month. The bank's main problems stem from bad loans made to companies linked to one of its largest shareholders. Sever Muresan, a former Romanian tennis player.

the country's leading invest-ment fund. Like Dacia Felix. commission even existed.

Although, confidence has

vate, mutual funds and securities companies, the financial sector remains dominated by four large state commercial banks. The big four - Bancorex, the foreign trade bank, Banca Agricola, Romanian Commercial Bank and Romanian Development Bank - controlled 67 per cent of total assets of 37,000bn lei in the banking sector in May, accord-

privatisation bill. However, analysts say the government is unwilling to especially in an election year. "The banks remain an impor tant tool of a centralised economic policy," says a local

state is to channel 1,300bn lei of subsidised credits to farming through Banca Agricola. This has increased to dangerous levels the bank's exposure to the sector while the government is believed to have often delayed contributing to a fall in the bank's capital adequacy rate to well below the 8 per cent

In addition, forex reserves at state banks, in particular Bancorex and RCB, were run down by this winter's unexpectedly large energy imports which are still handled by state monopolies and financed centrally. Extra energy imports ware

one reason behind the country's forex crisis which caused the central bank effectively to close down the inter-bank forex market in March. The leu has since been held at an artificially high rate, passing through the 3,000 barrier in late June, at a time when it was already trading in the black market at about 3,600 lei Politics: by Virginia Marsh

# The pendulum starts to swing

If local elections are a barometer, a change of

government could be on the way

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SPEAN MARKETS

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If the results of last month's local elections are anything to go by, Romania could at last be heading for a change of government in this autumn's general elections. The elections for this is also a faceless governmayors and local councillors the first nation-wide polls for four years - were a victory for the opposition parties.

The governing Party of Social Democracy (PDSR), the rump of the group of former communists that has held power since December 1989, lost virtually every large city or town, including Bucharest, despite spending heavily on its campaign. It performed best in the countryside - its tradi-tional stronghold and where nearly half Romania's population lives - but even in rural areas it lost votes to the left and the right.

The PDSR formed a minority government in November 1992 - supported in perliament by extreme nationalist and hardline left-wing parties - after narrowly winning general elections two months earlier. It took office during the depths of the country's post-communist recession and its government are very disappointed with this

Democratic Party (PD)\*

Party of Social Democracy in Romania (PDSR)\*

Romanian Social Democratic Party (PSDR)

Socielist Labour Party (PSM)

Democratic Parry (PD)\*
National Peasant-Christian Democratic Party (PNTCD)\*
Party of Romanian National Unity (PUNR)\*
Hungarian Democratic Union in Romania (UDMR)\*
Greater Romania Party (RM)

National Liberal Party-Democratic Convention (PNL-CD)? National Liberal Party-Youth Wing (PNL-AT)

was not expected to last. Few of the party's leading figures joined the cabinet Instead it nominated "technocrats" such as Prime Minister Nicolae Vacaroiu, a former communistera state planning official, to key positions.

"After seven years of the same government one would expect the pendulum to swing in the other direction," says a senior western diplomat. "But ment that doesn't represent a clear ideology. It does not capture the spirit of the country or the way it is going. It's not a government that people can identify with. It lacks political

The PDSR describes itself as a centre-left party, aiming to create a "social market econ-omy". Despite increases in real wages and a drop in official unemployment, however, the election results show the party is paying the price for governing during a period of plunging living standards and for failing to stimulate sufficiently the creation of jobs or improve the social security system.

Voters have also been dismayed by widespread corruption and the emergence of a small rich business class, several of whose members appear to owe much of their success to links with the ruling party. "Our best asset is that people

Legislative elections 1992: parliamentary parties

Chamber of deputies



Emil Constantinency, leader and ential candidate of the CD

government," says Petre Roman, Romania's first postcommunist prima minister and now the presidential candidate of the Union of Social Democrats (USD), a recently formed centrist coalition between his Democrat Party and a small Social Democratic party, "Corruption is huge. The system is really rotten, he says. "Social promotion is based on party membership and many people live to incredible poverty.

in addition, opposition par-ties have used the past four years to build up their organisations and are better prepared to face the elections than they were in 1992. "We have gone



President ion Bescu, Romania's

from a symbol of hope in 1992 to an institution of hope today. presence," says Emil Constantinescu, leader and presidential candidate of the Democratic Convention, a centre-right coalition and the main opposition group. "We still lack financial resources and access to mass media. But we can defeat [the PDSR] this year through better organisation

> The higgest obstacles to a change of government, however, remain division in the opposition and the distrust that exists between Mr Roman's technocrats - several of whom were part of the PDSR'a predecessor party and government - and the Democratic Convention which includes many former dissidents and intellectuals.

The election results indicate that neither group would have the support to form a government alone. In addition, the results suggested the two liberal parties, formerly members of the Convention, would struggle to reach the 3 per cent threshold needed to enter parliament.

"In a campaign period, all parties are adversaries," says Mr Constantinescu. "However, we are disposed to make alliances, first with former Convention parties and then with the USD ... The USD is closer to us then the [PDSR]. It has



candidate of the USD

an accent on rapid reform and on democratisation. opposition has brought us together. But two main elements of the campaign are the poor government of the past six years and corruption. Members of this party IMr Roman's were in power for two of the six years...we don't want to take over that debt."

Analysts add that Mr Constantinescu places too much importance on the presidential polls, which also take place in November, when it is clear the opposition has a greater chance of winning the partiamentary elections.

One of the governing party's main advantages is that President Ion Iliescu, Romania's pre-eminent politician, is likely to stand on its ticket and appears to have a good chance of being re-elected. Unlike Mr Iliescu, Mr Roman and Mr Constantinescu have announced their candidacy for the presidential elections. Mr Roman's charisma and his strong presidential campaign were behind the USD's better than expected

results in local elections. Although Mr Iliescu is careful to distance himself from some aspects of the PDSR government, including its co-operation with extremist parties, the party's prospects are likely to improve significantly once the president's campaign gets under way.

The port of Constanta: by Virginia Marsh

Modernisation currently under way will restore the port's central role in regional trade

The port of Constanta, the largest on the Black Sea, is emerging rapidly from a sharp post-communist recession exacerbated by the UN embargoes on rump Yugoslavia and Irag, traditionally two importent Romanian trading partners – and has embarked on a large modernisation pro-

Together with other projects, this should enable Romania to capitalise on its strategic location between ea and west and to position itself on what is set to become an important trade route, linking the resource-rich Central Asian republics with Europe.

The modern port celebrates its centenary this year but for conturies Constants has been a leading regional trading and maritime centre. It was founded in the 7th century BC by the Greeks who named it Tomis and later passed to the control of the Romans, one of whose emperors, Augustus, excled the poet Ovid to the city where he died in misery in AD 17. Although Constants, like other Romanian towns, has been blighted by the insensitive urban planning of the communist era, it remains rich in history and culture, exemplifled by its mosque and ethnic Turk, Armenian and other

Today's port covers 8,600ha, divided into two areas - the older north port and a much larger, adjacent development, Constanta South, which has

yet to be completed. The south port is at the mouth of the 65km Danube-Black Sea canal through which traffic passes on to the river, at the start of a waterway linked to Rotterdam by

Vasile Pistolea, general

the Rhine-Main-Danube caual which was opened in 1992.

tratinn, predicts Constanta will this year record similar growth levels to 1995 when traffic increased by nearly 13 per cent to 34.9m tonnes. This is still, however, well below capacity of 83.5m tonnes and levels of over 63m tonnes achieved in the 1980s.

Mr Pistolea says a priority is to extend container capacity a category of traffic which grew by more than 40 per cent last year. The port hopes by early next year to secure \$125m in financing from the Japanese government to build in Constanta South the first se of a new container terminal which is eventually due to have annual capacity of 800,000 20ft equivalent units.

The aim is to add 100,000 tonnes of storage space to the north port's capacity

In addition, negotiations with the World Bank are tak-ing place for funding for cereal storage facilities, also to the south port, in anticipa-tion of increased grain exports from Romania and neighbouring rump Yugoslavia and Hungary. The aim is to add 100,000 tonnes of storage space, with modern drying and sorting equipment, to the north port's existing 90,000 tonnes capac-

The port has already received an Ecu35m loan from the European Investment Bank to co-finance, with the Romanian government, the rehabilitation of the north and south breakwaters. From its own resources, it has modernised the telecoms network and is about to set up a modern information system which will link with international data

Other plans include attract-

ing private investment for a liquefied natural gas terminal as well as further development of the Agigea free trade zone in the south port where foreign and local companies are already building warehouses.

owned by the state but services and other activities have been or are due to be privatised. This includes the Constanța shipyard, the country's largest, which employs 4,300 on a 70ha site in the heart of the north port. Since 1990, the shipyard has successfully reorientated sales, away from the now negligible domestic market, to exports, winning orders from South African. Belgian, German and Austrian

Production ranges from river-going barges up to bulk carriers of 170,000 dwt and the yard has also developed its repair activities. It is investing in new machinery and is one of 550 companies in the privatisation programme in which 51 per cent has been set aside for a strategic investor. Sorinel Putinei, production manager, says employees, who already own 7.5 per cent of the company, hope to form a con-sortium with local investors to

buy a majority stake. Although the shippard is profitable - last year it made 5.6bn lei on turnover of 103.9bn lei - it is likely to face increased competition from 2 Mai shipyard, 40km south at the satellite port of Mangalia. Last month, Daewoo, the Sonth Korean Industrial group, signed an agreement to invest \$53m in a joint venture with 2 Mai. Daewoo's invest-ment, which includes \$23m in "know-how" as well as its thick order book, will help the yard lift production to six to eight ships a year, up from

"The Koreans' productivity is incredible," says Vasile lorga, marketing manager. "In a few year's time this shipyard will be the best in Romania and one of the strongest in the

less than one at present.

# DIFFERENT CURRENCIES, DIFFERENT COUNTRIES,

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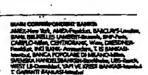


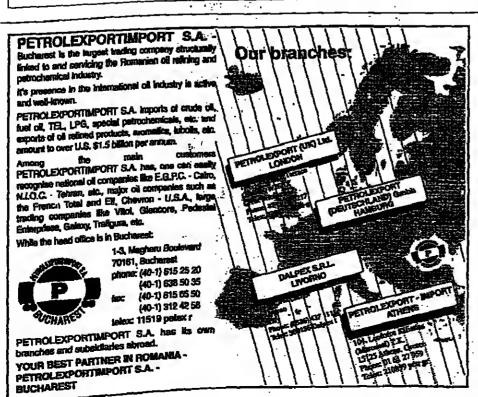
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#### Foreign borrowing: by Kevin Done A return to the euro fold

A eurobond debut has come as global investors turn to emerging market borrowers

Romania's return to the international capital markets during the past year after an absence of more than a decade marks a crucial development in the integration of the country into the world economy. The borrowing programme

allows the hard-pressed central bank to rebuild its foreign exchange reserves and to reduce its dependence on bor-rowing from the international financial institutions led by the IMF and the World Bank. Romania was absent from the capital markets for more

than a decade, after the deeply damaging decision of its late dictator Nicolae Ceausescu to repay the country's entire \$10bm foreign debt in the 1980s. lts debut on the eurobond markets last month has coincided with growing popularity of emerging market debt among international investors, anxious to pick up the extra yield available on paper from developing nation issuers.

The launch of its \$225m three-year eurobond, up from the proposed \$150m because of the level of demand, has provided a further milestone in the foreign borrowing programme. It was the sixth capial raising exercise sinca Romania re-entered the market

early last year. The National Bank of Romania raised \$150m in a oneyear syndicated loan arranged by Citibank in March, 1995 and a further \$110m in an 18-month deal on the syndicated market last October, also arranged by Citibank. It followed those deals with a \$90m syndicated loan led by Sanwa in April.

in between, the central bank raised \$50m through a private placement of five-year floating rate notes in the US, led by Merrill Lynch which also led the \$225m eurobond. And in May the bank raised Y52bn with a three-year samural bond led by Nomura, Romania's first international bond offering since the end of the second world war.

Rates on all these borrowings have steadily fallen. The bank paid 2.75 per cent over Libor on the first loan. That fell to 2.25 per cent on the October loan and the February ing the econom private placement, and to 1.75 past three years.

the launch of the two bonds this year with a rate of 3.05 per cent over US Treasury bonds

Mugur Isarescu, governor of the central bank, says that Romania will be seeking to raise about \$600m in additional funds during the remainder of the year, probably in the shape of a fourth syndicated loan, together possibly with a second samurai bond.

"Each: tima we want to set new benchmarks," he says. Wa want longer maturities and we want to improve our costs." The bank aims to build reserves and obtain a better credit rating, he says, but also to break the ice for Romania in the international capital markets, so the bank can be followed by the treasury, or public utilities and commercial banks and companies.

Mr Isarescu also sees the borrowing programme as a way of improving prospects for increased foreign direct invest-ment and portfolio investment, where Romania has lagged behind its regional rivals and which the governor regards as a catalyst for much needed restructuring of industry. Of the borrowing limit set by

parliament of \$1.5bn for this year, the bank has raised about \$900m. Debt service payments total about \$1.1bp for the year of which around half was paid in the first six months. Romania's return to the mar-

kets has been supported by its first ratings earlier this year from all leading credit rating agencies. Standard & Poors, IBCA and Moody's each awarded their third highest speculative or non-investment grade rating (BB- for S&P and IBCA and the equivalent of Ba3 for Moody's). The awards are the lowest

for any of the central European countries rated by the agencies, well below the A category for Slovenia and the Czech Republic, the highest rated of the transition countries, and also well behind Slovakia, Poland and Hungary, which all have investment grades from some of the agencies. Analysis regard the ratings

as favourable, however, given that economic reform etarted later in Romania than elsewhere in the former communist bloc and that they reflect the country's low foreign deht and achievements in stabilising the economy during the



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# laying a winning game

Ilie Nastase's former doubles partner is bringing his many skills to bear on Romania

While Ille Nastase, Romania's most famous tennis player, was taking a severe beating in his abortive effort last month to become mayor of Bucharest, ion Tiriac, his former doubles partner, has been leaving a much more permanent mark on his country.

Since the collapse of communism Air Tirlac has been bringing his considerable business talents to bear on Romania. the country that he led with Mr Nastase to three Davis Cup finals, but which he largely abandoned for 25 years during the worst excesses of the regime of the former distator Nicolae Comsescu

lintil the beginning of 1990 Mr Tiriae, once o top-class icu hockey player as well as international lennis player, had devoted his coergies to building an International sports business career, first as coach and later as business manager and tournament promoter. His clients included Guillermo Vilas, Henri Leconle and most famously Boris Becker.

From his main base in Monte Carlo be is still deeply involved in the business side of international sport, bringing expertise to a number of leading tennis tournaments on the ATP and WTA tours including from this year the ATP world championship in Hanover, and he has a joint venture with Rupert Murdoch's News Corporation for marketing the world swimming championship.

ln Romania bowever, Mr Tiriac bas been seeking quite different opportunities in the fledgling capitalist market of the second most populous country in central and east Europe excluding the former Soviet Union

His interests now span banking and insurance, car importing and distribution, airport services, commercial television, automotive components, lubricants distribution, real estate, advertising and medie

He bolds a 31 per cent stake and an option to buy up to 51 per cent in Commercial Bank lon Tiriac, one of the most successful privately-owned banks to have started up in Romania and in which the European Bank for Reconstruction and Development holds a 20 per cent stake. The bank has 18 branches around the rountry

and plans for offices in New York and Frankfurt.

In addition, an insurance company, ASIT, Asigurari lon Tiriac, still in its first year of operations, has 15 branches and 35 agencies around the

At Bucharest's main Otopeni

airport Mr Tiriac holds a 25 per cent stake in Lutas, the airport services company responsible for both passenger and baggage handling. It is a joint venture in which Lufthansa also holds 25 per cent, Tarom, the Romanian state airline 37 per ceot and the airport 13 per

He moved early into the automotive sector and today bolds 90 per cent stakes in the importer/distributorships for Mercedes-Benz (Autorom), Ford (Romear) and Hyundai as well as in the Avis rent-a-car franchise (Aviroms). Mr Tiriac owns a one third

stake in Rolem, a wood processing company near Brasov, which makes all the wood panelling trim for the Mercedes-Benz E and C-class cars. He has a high profile invest-ment in Pro TV, the first national, private commercial television network, which is

controlled by Central Euro-

pean Media Enterprises of the

in December last year and is already outperforming the rival state-run channels.

Mr Tiriac claims that his investment in Romania is now in excess of \$50m and that about 4,000 people are working in the companies where he is a leading shareholder.

Ha is ln Romania two or three times a month, but only for short visits. "I fly 320 days a year, my business is where I am at any moment," While some of the emerging

high-flying entrepreneurs in Romania are clearly intent on building business empires, Mr Tiriac is different. "Ha is really a venture capitalist with a series of investments," says one former business associate, "Ha is an investor, he is not trying to run the businesses He does not need the problems the obligations, the bassles." But Mr Tiriac has still built a

which is financed and controlled from a series of holding companies in the Netherlands bearing names such as Red Room, Power Development and Balaclava. He is one of the sharpest businessmen and tough as nails," says one banker in Buc-

harest "What he does not

know, he admits, and he hires

the best people."

formidable operation, much of

# Pioneer in raising finance

After securing a foreign loan, the syringe maker tapped local capital markets to help cover its costs

Sanevit is by no means Romania's largest private company but it is possibly its best known and, although set up just five years ago, is also among its oldest in the manufacturing sector.

Sanevit, which makes syringes at a plant in western Transylvania, was the first private Romanian company secure a foreign loan after communism's collapse in 1989 - it borrowed \$37m to import equipment from Italy in 1991. It has also been a pioneer in apping local capital markets to help cover its financing needs. It was the first private any to hold a pationwide public offer, raising the equivalent of \$2.2m in a well-publicised offering organised by local broke

Bursa Gelsor last summer, making it a household name.

In November, it became the

only non-state company to list on the fiedgling Bucharest Stock Exchange. Its majority shareholder is Arceston, a Romanian trading company

"Apart from the foreign loan, our principle is to raise encing from capital markets to avoid paying high local interest rates," says Wirces Roman, general

manager of the company. In January, when its stock was still high, Sanevit completed a scrip issue, only to see its share price plumm faltered and after the company decided to

re-schedule its foreign debt. It closed up 100 at 12,000 on June 27, a fraction of its all-time high of 71,000 last year. However, subject to market conditions, it plans to launch its first bond issue. ossibly for 18bn lei (\$6m) in

Although private, the company was formed partly at the initiative of the Ministry of Health, which identified a need for a local sable syringe producer and was prepared to give a ent guarantee for the equipment loan.

Romania has a serious Aids problem, caused in part by poor hygiene and the re-use of syringes in the past.

Construction of the plant began in 1992 and production started in December 1994 with the first deliveries in March 1995. The company, which eventually hopes to produce about 180m syring and 390m needles a year, has reported 444m lei net profit on turnover of 1.522bn lei for

'We're in a business where the market is not going to disappear'

Although the 1995 profit was above forecast. Mr Roman says that the comp has not been able to work at canacity because of a shortage

of local orders. The Romanian market is stimated at about 300m syringes and 400m needles a year. However, Mr Roman says that when his team drew

company was not aware that a large part of the market was covered by imported syringes that were financed by the World Bank.

This caused the company to turn towards exports which have included sales to France and Hungary - which is just 50km from Sanevit's plant in the border town of Arad. Mr Roman adds that exports have provided the company with hard currency -

something which is often in short supply in Romania enabling it to pay for medical wrapping paper and the other imports it needs. However, the World Bank

programme is now drawing to a close and, in May, Sanevit won a substantial 10bn lei order from the ministry of health for 62m syringes and 2.89m needles.

"We've already achieved a great deal and have demonstrated what can be done in Romania by a private company. The good news is we're in a hosiness where the market is not going to disappear," be says.

Virginia Marsh



The brewing industry: by Kevin Done

# Foreigners stake out positions

Global producers are eyeing up what they see as a market with bright prospects for sales

> Foreign direct investment in Romania has lagged behind many other countries in the region, but with the second largest population in central Europe aftar Poland it is attracting the attantion of many of the big international consumer products groups.

Setting the pace are several of the world's leading beer producers, which are staking out positions in a market they believe is ripe for restructuring and development and where the prospects for strong sales

growth are bright. Groups such as Interbrew of

Belgium, Germany's Brau und Brunnen and South African Breweries have taken majority stakes in existing brewaries, while a new wave of investment has been triggered by Denmark's Carlsberg and Efes, Turkey's top brewer, which have chosen to develop new breweries on greenfield sites.

Before the arrival of the big international groups the Romanian brewing industry was highly fragmented with about 40 small, regional producers, hampered from davaloping national brands by poor prodnct quality and distribution.

That picture is changing rapidly, however, as the international brewers engage in a growing competition to estabish a dominant position in the Romanian market. These moves are part of wider strategies for expanding throughout central Europe with the lead ing companies also investing heavily in neighbouring Poland, Hungary, Bulgaria, the Czech Republic and Croatia.

Interbrew, the Belgian pro-ducer of Stella Artois, is one of the international pioneers in Romania. With interests in Hungary, Croatia and more recently Bulgaria, it made its first step into Romania in mid-

1994 through the purchase of a 51 per cent stake in the Bianca brewery project in Blaj.

Now renamed as Blanca Interbrew Bergenhier, it began production in April last year of a beer developed for the Romanian market under the naw brandname of Bergenbier. Interbrew quickly followed

this investment with the pur-chase of a controlling 51 per cent stake in the small Proberco brewery in Baia Mare (Maramures) in the north of Romania, which was producing under licence Honfenkönig, a lager brand of the Eggenberger brewery of Austria. Proberco is expanding capac-

ity to 450,000 hectolitres a year, which will give interbrew an overell annual cenacity of close to 1m hectolitres, two nationwide brands and a market share of about 10 per cent. The international brewers

are expanding rapidly with the introduction of modern technology, improved quality and investment in national marketing, sales and distribution.

"The big problem was the variable product quality," says Gérard Fanchey, Interbrew external affairs director. "The maximum shelf life was only about seven days, because they did not pasteurise the product. The small local brewers could

not distribute nationally because of the short shelf life." The Romanian beer market is estimated at between 9m and

10m hectolitres a year, with a per capita consumption of 45 litres a year compared with 140 in Germany, 39 in France and 103 in the UK. Competition is growing rap-

idly, Brau und Brunnen, the leading German brewery group and another early entrant, the largest foreign brewer in Romania. Last year it acquired from the state an initial 51 per cent stake in the Pither brewery in Pitesti, about 110km west of Bucharest. The stake has since been raised to 75 per cent. Brau und Brunnen claims a market share of 8.7 per cent and says it wants to raise this to 10 per cent. Its first significant move was the purchase of a stake in the Ursus brewery in Cluj-Napoca, in north-west Romania in 1992. It now has a shareholding of more than 60 per cent in this brewery, where it is developing Ursus as its national brand in Romania.

The Pitesti brewery is being modernised with plant and equipment from the group's shut down Elbschloss production aite in Hamburg, Germany. This is being transported to Romania for re-assembly in Pitesti.

The most recent arrival in Romania is South African Breweries, which purchased earlier this year from the State Ownership Fund a 70 per cent stake in the Vulturul brewery in Buzau, north-east of Bucharest with a 500,000 hectolitres capacity and a malt capacity of 11,000 tonnes.

SAB is investing about \$18m. including \$10m for the modernisation of the brewing facilities, packaging, distribution and marketing in the next five years. It has agreed to maintain the current workforce level for two years.

Other foreign brewers such as Carisberg of Denmark and Efes are to build plants rather than make acquisitions.

The most ambitious project is being planned by Eles, the leading Turkish brewer and a subsidiary of the Anadolu group. It has leased land at Pioiesti, an industrial city north of Bucharest, for the development of a plant designed to be its export centre

for central and eastern Europe. The group has announced plans to spend up to \$140m during the next six years to create a capacity to produce up to Sm hectolitres a year, making it one of the biggest breweries in the region. Production

is due to begin next year. Carlsberg is taking a 20 per cent stake in a new venture Romanian Breweries Bereprod, along with Israeli and local Romanian partners. It is building a brewery at Pantelimon on the outskirts Bucharest with an initial 500,000 hectolitres a year capacity to produce under the group's Tuborg brand, the most popular western beer brand in Romania.

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# A visitor's Bucharest

Bucharest no longer merits the title "Paris of the Rast" a nickname it earned in more prosperous times earlier this century – but the capital is rapidly becoming an easier and more pleasant place to

The international sirport at Otopeni, 30km north of the centre, is served by several leading atrlines, while Tarom, the troubled national carrier, flies to most European capitals as well as to Beijing and New York. Most western nationals (although not US citizens) need visas but these can be

purchased on arrival.
In theory, a taxi into the cautre should not cost more than 1000 kg (\$0,30) a kilometre, the rate for locals, but, even after bergaining, westerners are likely to pay \$10 to \$20.

Top class hotel space is still to short supply so book early. The newly-built Sofitel (tel; 00 40 1 2122988) in the World Trade Centre is the city's most luxurious hotel although it is not as central as the dowdy Intercontinental (tel: 6140406) or the recently-renovated Lido (tel: 6144930). The Sofital charges \$266 a night for a single compared with \$240 at the Intercontinental and \$220 at the Lido which also has a swimming pool. For better value, try the Majestic (tel: 2102746), a smart Turkish run hotel in a omet part of the centre which has just been modernised and charges \$140 for a single.

Eating and drinking outdoors is a favourite local pastime and, as soon as the hot summer months arrive, terasas' spring up all over town, One of the best is La Premiera (tel; 3124297), behind the Intercontinental, which serves local specialities, as well as international dishes. and is run by the convivial Or

Doina (tel: 2226717), a historic restaurant in a villa on Kiseleff, an elegant, tree-lined boulevard running north of Piata Victoriei where the central government is based Both also have indoor restaurants for the bitterly

Credit cards are accepted at an increasing number of restaurants and shops as well as at most large hotels but the exchange from len will be made at the official rate which, in late June, was about 20 per cent lower than the rate to the dollar offered to the many licensed local exchang bureaux. The dollar and the mark are the most widely-used foreign currencies

cold Bucharest winters.

The capital has several interesting museums, notably the Museum of the Romanian Peasant (Muzeul Taranului Roman), set up after 1989 to the former communist party museum and has a wonderful well-displayed collection of vernacular art, ranging from a wooden church and carved stone crosses to traditional costumes, icons and hand-painted easter eggs.

No trip to Bucharest is complete without a visit to the People's Palace or Casa Poporului, as it is known locally, the world's second largest building after the Pentagon. The palace, the construction of which consumed vast resources, outtomises the megalomania deposed dictator Nicolae Coansescu and is a chilling reminder of the suffering Romanians endured under his 25 year regime. Nevertheless, Casa Poporului is a modern wonder of the world and has to be seen to be believed. Tours can be arranged by appointment with the conference centre (tel:

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# Front-line inflation fighters

Commercial banks are lending at a discount below bank rate and treasury bill market rate

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 $\label{eq:constraints} \zeta = \{\alpha_{ij}, \alpha_{ij}, \alpha_{ij}, \beta_{ij}, \beta_{ij},$ 

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In Ghana'a high inflation economy, the banks are in the front line in the battle to bring down the inflation rate and stabilise the cedi.

During the reform period, the government managed to alow inflation from 123 per cent in 1983 to 10 per cent by 1991, but much of this hardwon ground has been given up over the past five years and, by the end of 1995, inflation was back to 71 per cent.

The money anpply target was overshot in every one of the past six years, invariably by a huge margin, while only once during that period – in 1991 - did government meet, or better, its inflation target. With evidence to show that high inflation rates have undermined economic growth in Ghana and with recent IMF research in Ghana concluding that rapid monetary growth translates into increas tion with a six-month time-lag before the full effect is felt, the government is relying on monetary restraint to rein in the price increases during 1996.

plan agreed with the IMF, the authorities will try to bring down the rate of monetary growth from 37.5 per cent at the end of 1995 to 5 per cent by the end of this year.

That is going to be a tall order and, bankers believe, one that is unlikely to be realised, though the performance in the first half of the year seems likely to be close to the targeted 20 per cent. But getting from there to 5 per cent looks unduly optimistic given the nature of the Ghanaian financial system.

In Ghana's cash-driven economy, currency in circulation is the largest single component of the money supply accounting for 36 per cent of broad money (M2) followed by demand deposits which contribute just under a third. Monetary growth is highly seasonal, accelerating in the final quarter of the year with cash payments to cocoa farmers.

This year's forecast 25 per cent to 30 per cent increase in the cocoa crop and the higher cedi price received by growers, partly reflecting currency depreciation, will fuel strong currency expansion towards the end of 1996 when the authorities hope to bring monetary growth down to 5 per

currency in circulation grew 48 per cent from its 1994 levels and if this is repeated this year, the monetary target will be missed by a wide margin.

In the first quarter, money supply grew almost 40 per cent from March 1995 levels and donors welcomed the subsequent upward pressure on interest rates in the money market which nudged up to 43 per cent in mid-June. Further increases are likely as the authorities seek to mop np excess liquidity in the market and restrain monetary growth.

It is an unusual - if not

bizarre - situation in which commercial banks lend at a discount below both bank rate (45 per cent) and the treasury bill market rate. The result is that some of the banks are engaging in more money market treasury operations, taking deposits from customers and recycling them into treasury bills, rather than lending to

Prime lending rates are below 40 per cent, which as one banker says, means that every time he makes a loan he is taking a loss on the transaction. In reality, of course, the banks make up their difference from fee and trading income, aspecially in the foreign exchange market.

This raises all sorts of doubts about the efficacy of monetary policy as a tool for fine-tuning the Ghanaian economy. If banks lend below the market rate because they must meet the needs of important customers and secure access to foreign exchange, and if currency in circulation is the driving

wristed husiness.
On the other hand, because the market is dominated by the state-ownad banks - with small lending portfolios rela-tive to their deposit base and investment ratios - interest rate policy does influence the behaviour of the larger institu-

force in monetary expansion,

then interest rate policy may

well turn out to be a limp-

According to the most recent survey of Ghana's banks, carried out by Price Waterhouse Associates, the country's largest bank, ranked by assets, the state-controlled Ghana Commercial Bank, had a loan-to-deposits ratio of only 11 per cent, compared with 25 per cent for Barclays Bank Ghana and 24 per cent for Standard Char-tered Bank, ranked third and fourth respectively in the banking league table.

In terms of deposits the two state-owned banks have more than 40 per cent of the market (measured by the operations of driving banking "rightsizing"

Ghana's leading banks (1994) Profit (cedis bn) Ghana Commercial 260.4 121,0 21.3 11.5 Barclays 123.3 30.6 4.9 Standard Chartered 114,6 27.2 9.6 Merchant Bank Ghana 55.7 29.3 5.5

the 12 leading banks), with Ghana Commercial Bank (GCB) bolding a 29 per cent market share and Social Security Bank 13 per cent. Barclays, with almost 14 per cent and Standard Chartered with 13 per cent, are the other two leading institutions, giving four banks approximately 70 per cent of the deposit market.

With spreads - between deposit and lending rates - of 20 per cent and more, banking is a highly profitable business, especially where cantious lending policies are adopted. Here, the state-owned banks are at a disadvantage, partly because of a huge branch structure and high labour costs (in the case of Ghana Commercial Bank). but also because they have borne the brunt of "political" lending to state enterprise and other poor credit risks. In 1994, GCB's staff costs were two thirds of its operating expenses compared with less than 60 per cent for Barclays and 56 per

cent for Standard Chartered.

Standard Chartered, which is

staff substantially and others are following suit.

When it comes to provisions, the state banks, GCB and SSB, had 1994 loan loss provisions of 43 per cent and 36 per cent of their loan portfolios respectively against 13.5 per cent for Standard Chartered and 6 per cent for Barclays. This explains why financial sector restructuring plays so importani a role in the country's reform programme. the process started with the progressive liberalisation of the financial sector during the 1988-1991 period during which interest rates were liberalised credit allocation targets abolished and fees decontrolled.

In 1989, more than 30bn cedis in bad loans was removed from bank balance sheets - most of it converted into bonds and the balance handed over to the Nonperforming Assets Recovery Trust (Npart) for recovery. Phase two of restructuring includes the sales of shares in state banks - 42 per cent of GCB has been sold and 30 per

SHAKA COMMERCIAL BARY

cent of SSB - though the plan of selling a further 30 per cent in each case to a strategic (presumably foreign) bank to take over management is yet to be implemented. Another four banks are on the divestiture

Foreign banks are certainly interested in entering this profitable market - in recent years both Stanbic of South Africa and the Hong Kong Shanghai though the attraction is diluted somewhat by the depreciating

Whether a foreign bank would want to take on a retailtype operation without full management control is another wants foreign banks to take a stake in operations such as GCB, it may have to rethink its strategy



# Hard times for manufacturers

Inflation tops the list of problems, followed and high interest

rates Industrialists, reflecting on six years of stagnation during which manufacturing's share in GDP declined from 10 per cent to some 7.5 per cent last year, are virtually unanimous about both the causes of

decline and the solutions. Inflation tops the list of problems, closely followed by its ing cedi and high nominal

interest rates. Cadbury Ghana, which produces confectionery for the local market, bemoans the fact that more than 80 per cent of its inputs are imported. In an economy where real wages are falling and unemployment increasing, success depends on building market share, which Cadbury has managed to do very successfully. Cedi devaluation is helping by pricing direct imports ont of the range of most consumers. But with widespread smuggling and evasion of customs duties and tariffs, effective protection is significantly lower in practice

it is less at risk from rising input prices - imports account for about a third of total costs - but its main competition comes from direct imports, and

great deal about the changing nature of the Ghanaian con-sumer market Five years ago,

has bucked the trend in the manufacturing sector as a whole, attributes its strong performance also to building market share in a slow-growth

established multinationals have fared better during this declining share in GDP -

than Ghana's small and medium scale industries. More by a depreciating cedi important, perhaps they enjoy the benefits of brand loyalty of the technological back-up of their offshore parents and of scale economies.

Claims that Ghana is being de-industrialised are rejected by donor agencies which argue that the country is simply undergoing the process of normal structural change from a situation of over-protection and inward-focused industrialisation. They point too, to the strong growth of small-scale enterprises in rural area whose output is not captured

in the official statistics.

Whatever the past trend, it is clear that sustained economic growth and poverty reduction in Ghana depend on a strong manufacturing sector. The World Bank's medium-term projections assume that de-industrialisation will be reversed in the second half of the decade during which period manufacturing industry will keep pace with GDP growth of around 5.5 per cent annually. But according to the Accra based Instituts of Economic Affairs (IEA), this will happen only if Ghanaian industry can become internationally com petitive so that it can build sales in export markets while fighting off competition from

This sensible conclusion sits uncomfortably with official enthusiasm for micro and small-scale industries, which are unlikely to become competitive in export markets where style, quality and technology count more than production costs. Not only that, but all agree that manufacturing development in Ghana is constrained by infrastructural deficiencies and the scarcity of technical and managerial skills. The fact that the multinationals are finding it easier to survive and prosper in the post-reform era underscores the implausibility of small

growth. Finance is a serious constraint, too - and not just for the small operators. Nominal interest rates of 40 per cent and above are an important deterrent to investment and expansion, even for those able to access the funds. Many indeed most - smaller businesses are shut out of the market altogether.

enterprise-driven industrial

"The reality," says Dr Justice Addison, president of the Association of Ghana Industries, "is that banks find lending to the government (by buying treasury bills) almost risk-free, with good returns compared to a riskier private



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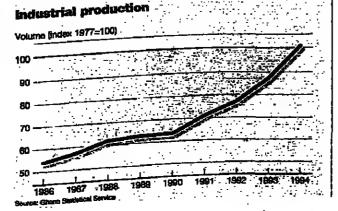
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than in theory. Unilever tells a similar story; imports at home. it, too, suffers from smuggling. Unilever's experience says a

between 60 per cent and 70 per cent of its sales were in urban areas; today that proportion has dropped to between 40 per cent and 50 per cent reflecting the recovery of the cocoa industry, the expansion of the mining and timber industries and the growth of self-employment in rural areas. Unilever, which like Cadbury

consumer market. Cost savings, productivity gains, a focus on quality and service, a sales effort thrust into the more prosperous rural areas and a measure of protection afforded by cedi devaluation bave all contributed to this above-average perfor-

Industrialists say that the phase of de-industrialisation measured by manufacturing's because they are less vulnera-



■ Gold: by Michael Holman

# Predator may be stalking Ashanti

These are exciting times for the industry that is the largest foreign exchange earner

Ghana's gold boom continues apace. The sector's flagship company is thriving, but a foreign predator may be prowling. Barely two years after Ashantl Goldfields belped blaze the African privatisation

trail in one of the largest and most successful state divestitures the continent has seen. speculation is rife that South Africa's Anglo American Corporation is stalking the com-

The combination of a spate of acquisitions by an Ashanti management determined to resist, coupled with the fact that the Ghana government still holds a 20 per cent stake as well as a "golden share" makes the company a formidable target.

was 18 per cent - about half

the national average - and

loans to parastatals accounted

for approximately 50 per cent

of the non-performing assets of

the banks. As recently as 1994,

the SOEs owed \$1.Sbn to

domestic lenders, three quar-ters of this being the domestic

debts of leading utilities - the

Volta River Authority, Ghana

Telecom, Ghana Ports and Har-

bour Authority, the Volta Lake

Fransport Co and the

ity Corp of Ghana.

makes for exciting times in the industry that has supplanted cocoa as the country's largest foreign exchange earner.

Gold exports earned \$647m last year, representing around 40 per cent of total foreign exchange earnings. Production is set to reach 1.7m ounces in 1996 and the sector is capable of doubling that output by early next century.

investors from as far afield as Australia, Canada, Britain. and South Africa are taking part in the search for the mineral that was at the heart of commercial interest in the

region a century ago.
The rise and fall and subsequent revival of the gold mining in Ghana reflects the fortunes of the country as a whole

independence, the country's gold production was 913,000 By 1982, when Gbana was reeling under the conse-

Accelerated sell-offs

quences of failed socialist poli-

**Privatisation:** by Tony Hawkins

Kwame Nkrumah and a succession of military coups, output bad fallen to 261,000

> Recovery owes much to the Rawlings' government decision in 1983 to implement a reform programme based on marketdetermined exchange rates and a supportive climate for tha orivate sector.

Today, nine large-scale companies, including Goldfields Ghana, a subsidiary of Goldfields of South Africa, are taking advantage of one of Africa's most attractive investment climates.

The company's Tarkwa mine raised production to 23,000 ounces but development is likely to concentrate on opencast mining of reserve thought to exceed 7m ounces In 1960, just three years after elsewhere on the Tarkwa con-

> A further 50 companies have mining leases, and another 150 owo prospecting licenses, while 565 small-scale licensed

cies of founding president mining operations make their own contribution to the gold boom - 90,000 ounces last year.

But far ahead of the field is Ashanti Goldfields, the Ghanaian-led mining bouse which accounts for the bulk of the country's production and which went public in 1994.

Although costs have been rising, at \$208 an ounce, Ashanti remains among the lowest-cost one third of world gold mines. Ashanti's operations are cen-

tred on deposits close to Obuat, where its total ore reserves and open-pit resources exceed 20m ounces, but estimates suggest they could be nearer 50m ounces, one of the largest in the world. The company's gold produc-

tion and reserves could well double in the next five years, say analysts, which would make Ashanti one of the world's top five producers. In April 1994 Ashanti was listed on the London and Ghana exchanges, with the government of Ghana selling 30 per cent of its 55 per cent rest for \$454m.

Earlier this year Ashanti became the first indigenous African company to be fully listed on the New York stock exchange, and was also recently listed on the Toronto

over \$32,000 ounces last year. With investment running at \$140m this year alone, the company is contiming to expand, rehabilitate, and modernise programmes at home as well as press ahead with the search for new assets abroad, though not without experiencing some

While production at the company's mine at Ohuasi has risen at a compound annual rate of 15 per cent since 1985. the target of 1m ownces from the mine in 1995 proved opti-

Technical difficulties and the severe drought early in 1995 limited production, and output at Obuasi is set to stay constant at around 900 000 ownces. say company officials. But disappointment at fail-

ing to reach the Im target was compensated by developments on other fronts - notably purchases which are turning Ashanti into a leading operator on the continent as a whole. But Ashanti's rapid expansion is also seen by analysts as a defensive tactic against a

possible takeover by Anglo

American Corporation of South Africa. Angle got its foot in the door when it acquired 6 per cent of Lonrho, which owns 37 per cent of Ashanti, from Dieter Bock, Lourho's chief executive, who says he plans to demerge the group's mining interests.

Angle also has the first right of refusal on Mr Bock's remain-

ing 18 per cent of Lonrho. The acquisition spree began at the start of this year, when Ashanti announced that its 90,000 ounces in 1966. But potentially the most

Ashanti's gold production and reserves could well double in the next five years

been unconditionally accepted. Chuff has a 75 per cent interest in the Ayanfuri Mine 50km south-west of Obuast, with a forecast production of 40,000 ounces in 1996. Further licences in northern Ghana cover 900 sq km of the Najodi gold belt.

offer for Cluff Resources had

Cluff also manages the Freda Rebecca mine through the 79.6 per cent owned Cluff Zimbabwe, expected to produce

rewarding asset could be Chuffs 90 per cent interest in the 220 sq km Geita area on the. southern shores of Lake Victoria. Recent exploration has already identified reserves estimated at 405,000 ounces on one site. This is only a small proportion of what awaits discov-

The Cluff deal was closely followed by a \$100m agreed offer for International Gold Resources of Toronto, whose main asset is the right to a 45 per cent operating interest in the proposed Bibiani gold mine in Ghana.

This is expected to start up within two years, producing 250,000 ounces annually at a production cost of around \$180 an ounce

The third acquisition was an agreed \$290m share exchange offer for Australia's Golden Shamrock Mines, which has a 70 per cent interest in the iduapriem open-pit mine near Tarkwa, Ghana, producing between 120,00 and 130,000 ounces a year, and a 70 per cent stake in the Siguiri openpit gold project in Guinea, with an option to increase this 85

Cluff and other interests will allow the enlarged Ashanti group to come close to the

Lam-ounce mark by 2001, says

James Anaman, Ashanti's cor-

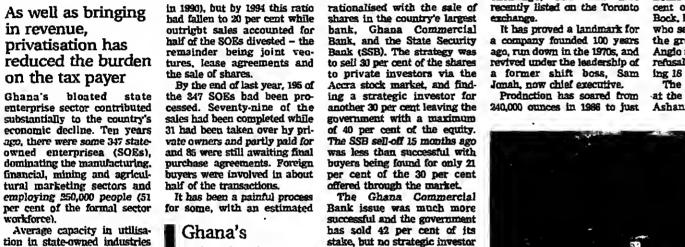
porate affairs manager. The attitude of the Ghana government would be an important issue should Anglo pursua a takeover bid. The government not only retains a substantial shareholding - just over 20 per cent, having reduced its stake by 5 per cent earlier this year - but also has a "golden share" to block an unwelcome predator.

The wholly-owned subsidiary, Ashanti Exploration Ltd (AEL), continues to explore properties in Guinea, Mali, Niger and Zimbabwe, with applications pending in Eri-trea, Ethiopia, Sudan and Tan-

· Ashanti is also a partner with JCI of South Africa in Mali, and IAMGOLD, via a subsidiary called AGEM Ltd. which started the Sadiola mine in Mali in conjunction with Anglo American.

"Looking . forward five years," says Sam Jonah, "we want this company to be the truly authentic, African multinational corporation, using its experience to assist as partners in the active development of the gold mining industry in Africa

"In future there will be a handful of international mi ing companies operating worldwide and Ashanti will be one of them. Wa will be the leading player in Africa."



privatisation only recently gathered pace

Ghana's privatisation programme, formally launched in 1988, has only recently gathnue, privatisation has reduced the burden on the tax payer ered momentum, indeed, in the first five years of the prowith subsidies and net lending gramme (1989-1993), privatisato parastatals declining to 13 tion proceeds were worth a per cent of current government mere 64bn cedis, but with the spending last year from 19 per sale of 30 per cent of the covcent in 1990. There are numerernment's stake in Ashanti ous reports, too, of improved Goldfields in 1994, which brought in 379bn cedis (\$316 m the Gihoc Metals Co, which i, receipts by the end of that after being privatised cut its year totalled Silbn cedls work force to 43 from 125 while more than doubling output to 1,200 tonnes a year from 500 tonnes previously. The banking sector has been

Much of the early divestiture activity took the form of liqui-dations (64 per cent of the total

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programme has

40,000 parastatal workers being laid off during the initial (1988-93) period, reflecting the large number of liquidations. However, in the past two years as sell-offs replaced liquida tions, there were only 5,000

As well as bringing in reve-

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rationalised with the sale of shares in the country'e largest

> stake, but no strategic investor has yet been found for either bank, which is hardly surprising since a foreign bank would almost certainly want clear control of the business. Approximately 150 enter-

prises remain to be sold and the government recently signalled its intention of accelerating the process with the outsourcing of the divestment process for seven enterprises to private sector consultants and agencies. Contracts are currently being drawn up for another eight SOEs to be handled in a similar fashion.

The World Bank has provided a \$70m private sector adjustment credit to fund the privatisation of a further 114 enterprises, including four important strategic operations and 46 medium-sized businesses. The ones likely to attract greatest attention are Ghana Telecom, dne to be divested by the end of this year, and the Mim Timber Co. There is likely to be much less interest in the State Housing Corporation and the State Insurance Corporation.

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MRF TYRES



Stock Exchange: by Tony Hawkins

# parkle starts to fade

33,000 Ghanaian investors par-

ticipating in the Ashanti priva-

shares in Social Security Bank.

more than 70,000 individual

tle buying by domestic institu-

tions other than the state-

owned Social Security and

National Insurance Trust

local operator in the domestic

money and capital markets. Foreign institutions, which

own a substantial share of

Ashanti - one estimate is that at least three quarters of

Ashanti is owned offshore with

most of the 25 per cent or so held in Ghana, being the gov-

ernment'a stake - have been

which is by far the largest

cent oversubscribed.

The market continues to lag both inflation and the devaluation of the cedi

After two sparkling years in which share prices rose 116 per cent in 1993 and 124 per cent the following year, Ghana'a fledgling stock market has run out of steam.

Last year, the GSE All-Share index rose only 6 per cent taking market capitalisation to 2,400bn cedies (\$1.6bn), bnt trading volumes declined sharply, falling 40 per cent to 56m shares.

Domestic buyers were deterred by the combination of rapid inflation and sharply nigher returns available in the money market in the first ball of the year,

too, many investors were attracted by the promise of 30 per cent monthly interest from the so-called "Wonder Banks" - non-bank financial institu-

Predictably, these operations were sbort-lived and their activities ceased in mld-1995. Foreign investors stayed out of the market, too, partly because the international institutions were looking for much larger parcels of shares than were available in Accra's highly Illiquid market, but also because cedi depreciation undermined hard currency returns.

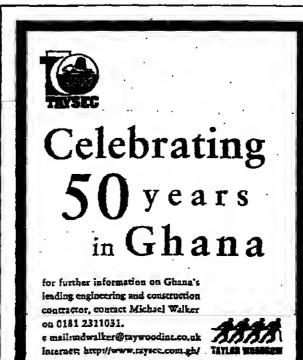
Since its inception at the end of 1990, the GSE has attracted 20 listings, of which Ashanti Goldfields (AGC) is far and away the star performer. AGC's market capitalisation on the GSE in mid-June was just below 2,800bn cedies or 87 per cent of the entire Ghanaian stock market

The second largest company is Ghana Commercial Bank (GCB), capitalised at 110bn cedes or 3.4 per cent of the total. followed by Standard Chartered Bank with 81bn cedis (2.5 per cent). Social Security Bank and Unilever Ghana account for a further 113bn cedis (3.5

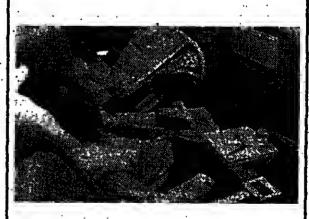
per cent), leaving the rest of the market, comprising 15 list-1994 period when dollar ings, to make up the balance of returns on the GSE exceeded 70 per cent. around 3.5 per cent of the total The exchange has caught the The foreigners are looking public's imagination, with the

for substantial parcels of shares which tends to mean participation in new issues and tisation, and 25,000 buying especially privatisation offerings. The Ghana Telecoms offer, expected by the end of the year, is likely to attract In the most recent sell-off. investors bought shares in the significant foreign buying, GCB issue which was 38 per depending on who gets the nod as strategic partner and how There has been relatively litmuch of the offer is targeted at

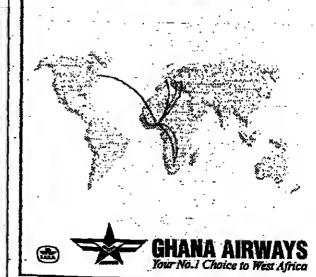
offshore buyers. in the meantime, the market continues to lag both inflation and the devaluation of the cedi, with the index gaining only 14 per cent in the first half of the year against esti-mated inflation since December of around 20 per cent and a 12 per cent currency deprecia tion. A combination of new offerings, and lower inflation and interest rates is needed for the market to regain some of its 1993/4 momentum.



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Cocea: by Michela Wrong

# Bumper bean crop expected

Ghana's cocoa continues to enjoy a reputation as the best in the world

Harry Ray

If the free market economy is premised on the belief that the best way of ensuring future efficiency is to reward good performance, the maxim appears in danger of being ignored when it comes to Ghana's cocoa industry.

This crucial national sector, which shrank by 60 per cent between the early 1960s and mid-1980s as a result of poor producer prices, high taxes, drought and bush fires, is now looking better than it has for decades

Output last year was 309,000 tonnes, the highest for 20 years, and the government is predicting a bumper crop of just under 400,000 this year. Coming second only to gold in terms of foreign axchange earnings, the sector earned Ghana \$433m in 1995.

Producer prices were last month raised to 1.2m cedis (710 dollars) per tonne, ensuring farmers who once received 15 per cent of the world price now get 51 per cent. Cocobod. the once overstaffed government board, is now a lean institution run by a fraction of its original employees. Ghana's beans continne to enjoy their reputation. as the best in the world.

Despite such achievements. the Bretton Woods institutions overseeing the country's structural adjustment programme are pressing hard for further reform in the face of strong resistance from a government understandably sensitive to any measure affecting a sector on which a quarter of the population depends.

The irooy is that the government and industry experts are not the only people arguing that the premium fetched by Ghana'a cocoa beans on the world market may well justify. retaining the controversial status quo.

A group of independent consultants asked by the World Bank to weigh up the pros and cons of changing the current system, under which internal marketing has been Uberalised but external marketing remains in Cocobod's control.



recently concluded that the existing monopoly should be

The British consultancy's preliminary findings were bluntly rejected by the World Bank, which sent them away to think again. An International Monetary Fund (IMF) internal document, while insisting that the Ghanaian government had "indicated its desire to remova the Cocoa Board's monopoly", concludes: "the government has asked the consultants to undertaka a more in-depth analysis of the issues involved."

An interview with Dr K.J. Adjei-Maafo, head of Ghana's Cocoa Policy Unit, paints a slightly different picture. "An independent group is telling us that the system we have now is the best and the World Bank is refusing to accept it. If you pay for a job to be dome and then say you won't accept it because it doesn't go in your direction, it's not fair," says Dr

ing, despite World Bank prodding, is based largely on the problems that have accompanled the liberalisation of internal marketing. Since 1992, private buyers have been licensed to purchase beens from farmers, once Cocobod's exclusive right, and 12 buying companies now handle a quarter of the

The result, says Joe Attemo, Cocobod's chief executive, has been a noticeable drop in quality. With a bevy of rival buyers competing for produce, farmers are under pressure to sell quickly and some beans are being transported before they have been properly fermented. then stored in substandard warehouses.

"With some buyers offering cash, staaling cocoa also becomes profitable. The farmer now has a security problem and to limit the risk he may try to transport cocoa before it is ready," says Mr Atlemo. He says Cocobod's quality

checking system means low The government's reluctance, quality beans are being caught

locally, ensuring cocoa being but that doesn't eliminate it. sold to the international market retains Its quality. "The hoying companies are on a learning curve and as a proportion of the crop the problem says Dr Adjei-Maafo. is insignificant. But if we grow complacent it could get out of Although according to tha

The next few years are likely to see a winnowing out, with sevaral boying companies deemed to have behaved tiresponsibly expected to lose their

But the problems remain significant enough to warrant a pause for thought before plunging headlong into further liberalisation, argues the head of the Cocoa Policy Unit. He cites the fall in standards experienced in other African cocoaproducing countries which have swallowed the World Bank medicine - such as Benin, Nigeria and Cameroon - as lessons Ghana, so much more dependent on cocoa in terms of revenue, needs to earn from.

"At the moment we are con-

to privatise external market- before export and processed" taining the problem internally,

The World Bank should give us a hreathing space to work out those problems before we tackle external marketing. We just used a bit more time,"

DAF the government is meant to deliver its judgment on cocoa sector reform by end-September, there is another good reason to stall.

In the forthcoming elections, President Rawlings is expecting to score far higher in rural areas, whose voters he bas wooed over the years with fertilisers, pesticides, electricity and feeder roads, than in the opposition-dominated cities. Any changes that would alarm the farming community risks seriously damaging his electoral prospects. "As a government we have

concentrated on rural areas and that is what is going to bring us back to power," acknowledges Dr Adjei-Maafo, "If I implement measures unpopular with the farmers. I lose votes for the president."

**Tourism:** by Michael Holman

# past recalled

The Slave Route project is at the heart of efforts to promote Ghana as a tourist destination

Ghana is turning its painful past to advantage as it prepares to promote tourism.

Castles huilt between the 15th and 18th centuries by the colonising powers and which served as embarkation points for the slave trade, become the focal points in a pilgrimage in which African Americans are tracing the route their forefathers fol-

More than 50 weather-beaten castles built by the Portuguese. Dutch, Daoes, Germans, Swedes and British dot the country's coastline, and three have heen designated hy Unesco as World Heritage sites St George's Castle and St Jago Fort at Elmina, and Cape

Coast Castle at Cape Coast. The Slave Route project, as it is known, inititiated by the World Tourism Organisation (WTO), is at the heart of Ghana's efforts to promote the country as a tourist destina-

Already the sector is proving an important source of foreign

Tourist arrivals have riseo from 85,000 in 1985 to 271,000 in 1994, bringing in \$222m according to the study.

An estimated 286,000 came to Ghana last year, but many of these visitors, however, are Ghanaians resident abroad, who oo arrival stay with friends and family, and thus contribute comparatively little to the spin-off businesses that help generate revenue - souvenirs, local handicrafts, and the

restaurant and hotel trade. The industry target is 400,000 for 2000, and 1m in 2010, generating net foreign exchange earnings of \$1.25bn in 2010 - a highly optimistic figure given the current state of the sector. The country has a long way

to go before tourism takes off, as a 400-page study prepared with the assistance of the WTO and United Nations Development Programme makes clear. "The central region that has the major developed attrac-

tions of Cape Coast and Elmina

Castles and Kakum National

star or above, and most rooms in the I-star or budget categories," comments the study. In the country as a whole,

rooms, with no hotels of three

only about 750 rooms - 8 per cent of the total - are in the three-star and above category, and nearly all of those are in the capital Accra.

Half the total rooms available are oot considered suttable for international tourists. Yet, with appropriate investment and management, Ghana could make more of what it has to offer. As well as the

castles dotted along the coast-

line, the country boasts some

fice heaches, several game parks, a low crime rate and a tradition of hospitality to visi-But the poor infrastructure needs to be radically improved

if the country is to meet the standards expected by international travellers. The Mole National Park, for example, the largest of the

national parks, covers nearly 5,000 square kilometres of rolling savanna and rivers and streams, with etephants, huflion, and leopard within its boundary

But the lodge needs upgrading as do the viewing tracks, and only a few thousand visitors a year make the journey.

More could also be made of the huge Volta Lake, with only one comfortable hotel oo its shores - at Akosombo - while consultants have also recommended a variety of ways of attracting visitors.

These ideas range from pro viding comfortable carriages on the railway from Accra to Takoradi and Kumasi, which takes in a sceole stretch of the country, to deep sea fishing and cruises on Lake Volta, as well as cultivating blohe markets, such as hird-watching expeditions.

The requirement that visas be obtained before arrival is a deterrent for would-be tourists. notes the report, adding that a further dislocentive to would-be visitors is the fact that the cost of staying in the leading hotels to Acera "is also relatively high when compared to the quality level of facilities and services provided"



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## GHANA EXPORT PROMOTION COUNCIL

The Ghana Export Promotion Council (GEPC) is an autonomous body established by NLC Decree 396 of 1969. It is the national focal point institution for export development and promotion, working under the aegis of the Ministry of Trade and Industry. Manned by a well trained professional staff, the council is an authority on the export of products in the non-traditional sector. The contribution of the council towards the development of this sector is significant.

The Council's goal is to ensure that the national export diversification and promotion drive succeeds. In pursuance of this goal, the council engages in an extensive scope of activities. These include:

- development of national export awareness
- identification of products with export potential and locating markets for them;
- creating goodwill for Ghanaian products through overseas and local trade fairs and
- providing exporters with the necessary assistance for penetrating the competitive international market;
- organising market missions to enable Ghanaian exporters meet prospective overseas
- assisting businessmen travelling abroad with information on target markets;
- providing advice on export marketing to exporters;
- training exporters and personnel of export facilitating institutions to upgrade their skills in export marketing;
- recommending to Government the necessary assistance and incentives needed by the Ghanaian exporter.

Foreign businessmen find the council a very reliable source of business information on Ghana

#### **ADVISORY SERVICE**

Our professional staff counsel exporters on a wide range of issues including product development, adaption, handling, preservation, packaging, pricing and shipping which, in totality, ensure effective market penetration.

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#### MARKET DEVELOPMENT

The Council assists exporters to locate foreign buyers for their products, using well established channels such as the Ghana Missions and Trade Commissioners abroad, Foreign Missions in Ghana and Trade Promotion organisations worldwide

For further information please write to the Executive Secretary **GHANA EXPORT PROMOTION COUNCIL** Republic House, Tudu PO Box M.146 ACCRA. Ghana

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# Rawlings faces tougher test

The hot-tempered president confronts an opposition still seeking unity in the elections

Six months after the event. Ghanaians are still talking about it the infamous cabinet meeting at which President Jerry Rawlings manhandled his vice-president, koocking him to the ground and eccording to the latter's account exicking him as he lay squirming, merely confirmed what most people already knew; that after 15 years at the helm their leader is still inclined to resort to unconventional methods when faced with dissent.

But the hot-tempered Mr Rawlings, who twice seized power at the barrel of a gun before ushering in multiparty democracy, will be under pressure to play by the rules in December. That is when Ghanatans once again go to the polls in what most observers agree will be a far tougher test for the president and his National Democratic Congress (NDC) than the 1992 elections.

Conveniently for the government, those polls were boycotted by the opposition, which claimed the electoral register

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had been tampered with.
thereby handing the NDC control of the 200-seat parliament.
This time the playing field will be a little more level.

A new electoral register has been drawn up and donor funds made available for transparent ballot hoxes, indelible ink and monitors. With five private radio stations now licensed and a hevy of anti-government newspapers in circulation, the opposition no longer complains about media access.

In addition, an already dangerously high inflation rate means the government can ill afford a repeat of the run-up to the last elections, when it granted the public sector large pay increases and awarded a spate of construction contracts, winning votes but sabotaging the economic recovery.

All this comes at a time in their history when Mr Rawlings is looking his weakest. The once-united NDC is riven by dissent. Seventy-five

AlPs who were deselected at party primaries are flirting with the opposition or threatening to stand as independents unless they win "compensation". The clumsy handling of a drugs scandai at the Ghandian embassy in Geneva and revelations of corruption among top officials have also tainted the government's

image. But most damaging is the growing exasperation of a swathe of voters - city dwellers, businessmen and students - at the failure to achieve prosperity after 13 years of structural adjustment.

This section of the population, hard hit by unemployment and rising prices, hlames Mr Rawlings for failing to create the much-promised "enabling environment" for the private sector, claiming he has favoured party supporters while harassing political foes.

Since the president's remarkable conversion from leftist revolutionary to market-driven reformer always appeared somewhat half-hearted, they argue, he never succeeded in convincing Ghanaians scarred by the past it was now safe to invest at home.

"Rawlings has worn out his welcome in a lot of places," says a diplomat. "His mishmash of revolutionary ethics and lMF prescriptions has taken its toll on the country and many feel it now needs to be hrought to an end."

Yet most analysts believe the president is still likely to win, albeit with the prospect of a much-reduced parliamentary majority for the NDC, thanks to that traditional African stumbling block: a divided correction

The two main opposition parties – the New Patriotic Party (NPP) and the Peoples Convention Party (PCP) – are still debating how to avoid splitting the anti-government vota by presenting a single presidential candidates in the constituencies

in the constituencies.

"If my party and the PCP agree to team up, a substantial chunk of opposition forces will have united," says John Kuffour, the lawyer-turned-husinessman who has replaced Professor Adu Boahen at the helm of the NPP.

Admittedly, ideological roots stand in the way of such an alliance. The PCP is a grouping of quasi-socialist movements drawing inspiration from Kwame Nkrumah, Ghana'a first president. The NPP, their long-time political rivals, belong to the right-wing Bustah-Danquahist tradition.

While such distinctions matter to the participants, the widely-accepted need to continue structural adjustment has emptied them of content. In any case, past quarrels have little meaning for the electorate, 70 per cent of whom are under the age of 50.

The real problem is one of party ego. Both the PCP's candidate, vice-president Kow Arkaah, and Mr Kuffour insist they are ready to take the



Kow Arkset: vice-president challenging Rawlings

number two slot on the opposition ticket. But as the talks continne, it is becoming increasingly clear both parties want the top slot.

NCP supporters argue that their movement is larger, better organised and the gravelly-voiced Mr Kuffour a far more impressive speaker. The PCP say Mr Arkaah, whose refusal to resign after his scuffle with the president won him enormous publicity, enjoys brand-recognition across Ghana and that - a minor sex scandal not-withstanding - his age and position as upholder of the Nkrumahist tradition win him automatic respect.

In addition, the courts are due to review a controversial legal ruling barring Kwame Pianim, a popular economist, from standing, risking a further muddying of the waters



John Kuffour: a businessmar turned politician

by producing a third possible

Kofi Totobi Quakyi, the information minister, acknowledges that this time around the government has a fight on its hands. But he argues that the base of government support lies in the countryside, where better returns to cocoa farmers, the expansion of the mining sector and the growth of the timber industry have improved living standards.

Opposition tactics may determine whether that hase is enough to give Mr Rawlings another four years in power. "If - and it's a big if - we can form an alliance we can give the government a run for its money," says Mr Pianim. "So far the government has been losing the election. The opposition has not yet started to win



The second second second second

# Business guide

Stroll at dusk across the lush lawns spilling out from the Cocoa Research Institute clubhouse, a throwback to the days of the British Empire, and you are immediately engulfed in the melodic sounds of the African night: crickets, cicadas, frogs, and the crawing of crows as they settle for the

The Institute is a two-hour drive from Accra, on a route that wends its way up the escarpment, through a series of cheerful villages, past the Aburi Botanical Gardens – planted in the 19th century – to culminate in the cool highlands of Tafo.

Like many tourist facilities in Ghana, the dilapidated guest houses, once the homes of British cocoa experts, fall well short of international standards, but the tranquility offered by this former enclave of colonial scientific excellence is appreciated by weekend visitors fleeing the rigours of steamy Accra.

Escaping the capital –
whether it involves driving to
Tafo, the 15th century
slave-trading forts dotted along
the palm-fringed coast, the
hotel overlooking the
Akosombo dam, or the Kakum
National Park – has become a
priority since Ghana's
economic recovery brought
with it the combined
disadvantages of congested
streets and overbooked hotels.
The city's infrastructure is

disadvantages of congested streets and overbooked hotels. The city's infrastructure is visibly straining at the seams and working here is no longer as pleasant as it once was. Time spent in traffic jams – allow more than half an hour between appointments if you have to travel across town – can be put to good use by

between appointments if you have to travel across town — can be put to good use by renting a mobile phone from Mobitel (telephone 027 5510 00), although the facility is expensive. As in so many African countries, it is often easier to ring abroad than locally, but you pay through the nose for the privilege.

Hotels are best booked in

Hotels are best booked in advance as there is a marked shortage of top-class accommodation. Although President Rawlings recently reminded delegates attending an international investment conference that 15 years ago they would have had trouble finding rooms, telephones or even water for their baths, there are still only 650 rooms that fall into the three to

five-star category.

Several hotels are being built or renovated, but the current dearth of competition means prices are high – as much as \$250 a might.

If Accra has its hazards, violent crime – scourge of so many African capitals – is not one of them. Ghanaians are rightly proud of the fact that their capital remains a safe city to stroll around in, even at

Apart from the usual tropical vaccinations, travellers are advised to start a course of anti-malaria pills before they arrive. They may get conflicting advice from doctors over which type of medication is currently considered most effective against the

increasingly quinine-resistant strain of malaria found here. The beaches, often enticing in appearance, pose another risk. The waters off these shores are deep and prone to strong currents. Drownings are all too frequent and it is probably wisest to swim when other people are nearby and remain within one's depth.

Visitors should come well-equipped with calling cards and a wardrobe appropriate to a climate that is unremittingly hot and humid. Credit cards are accepted at the top hotels, hut many restaurants and car hire agencies prefer to be paid in cash. Cars can be rented by the hour for 9,000 cedis and by the day for \$55 or over.

Most visitors will need a visa before they arrive although there it is no longer necessary to declare foreign currency at Kotoka International Airport. There is a \$20 airport tax on departure. The trip from the airport to the city centre costs about 6,000 cedis.

A useful hrief guide to operating in Ghana, Living in Ghana – Some Impressions, is available from the British High Commission's aid section.

Databank, a company which includes members of the

Ghana Stock Exchange, provides useful country and company analyses. They can be contacted on 669110, fax 669100.

Useful telephone numbers: (international code 233 Acura code 21)

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221665, US 775347/9, Japan 775815. Germany 221311. Hotels: Novotel 667546, fax 667533; Golden Tulip 775360, fax 775361: Labadi Beach 772501, fax 772520 (on the coast road, a little way out of town); Shangri-La 777500, fax 774873. Restaurants: African -Country Kitchen 229187; Lebanese - New Club 400 223723; Indian - Haveli 774714; Chinese – Hinlone 772782. Dynasty 775496; French - Le Bouquet 772417; Italian - Bella Napoli 773389. Others: The Ritz 220917, Chez Marie Lou 774891 Airlines: British Airways 667900, Ethiopian Airlines 664856, Air Afrique 777414, Alitalia 220759, Ghana Airways 773321/773341, KLM 224020/ 224050, SwissAir 663336/662679 Banks: Barclays 664901/666491 Ghana Commercial Bank 664911/9, Standard Chartered

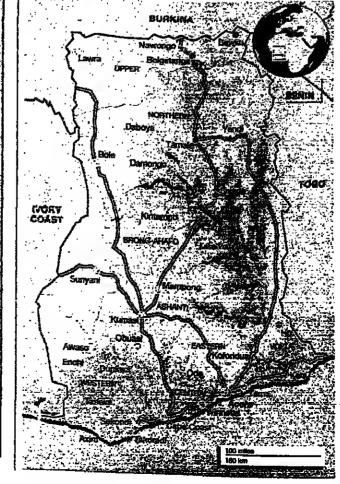
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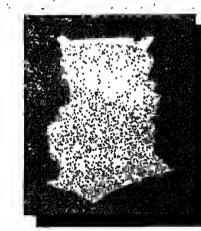
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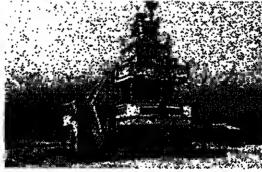


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forests, colourful festivals celebrating the chieftaincy, mouth-watering seafood and Africa's friendliest people. Ghana is a wonderful find. The exuberant Ghanaian hospitality - expressed heartily in the traditional greeting "akwaaba" or "welcome" - will warm you. You will feel at home in Ghana, the land of legends, while discovering its unparalleled traditions and beauty.

For detailed Information, travel brochures, maps, hotel lists and suggestions for tour itineraries, events and sightseeing for groups and individuals please contact:

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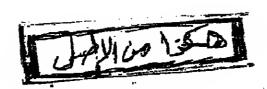
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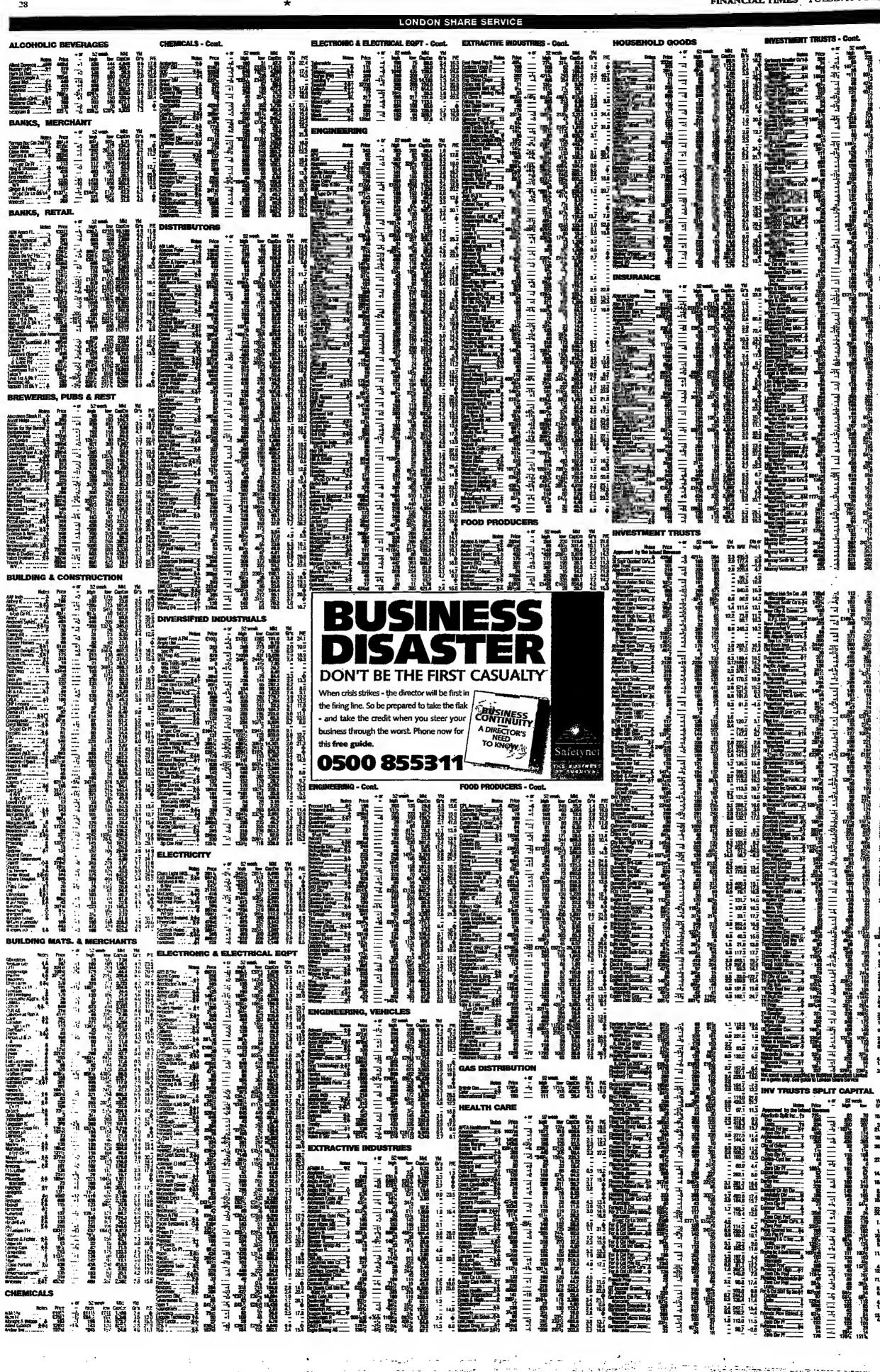
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# Footsie holds steady despite Wall Street jitters

With equity gale warnings from over the Atlantic still threatening, London's dealers sailed into yes erday's sessioo on a remarkably even keel.

Friday's late 114-point fall on Wall Street prompted a hrief flurry of nervousness which saw the FT-SE 100 index marked down nearly 20 points at the start of trading.

But the reaction was cushioned by a number of sbort positions in the UK and the Footsie rallied throughout the morning. The principal ratiocale for a calmer outlook was the latest set of UK economic data, which pointed to a more sub-

dampening concern that the next move in interest rates could be up. The data showed that output in May was above some expectations hut, more significantly, output prices in June were helow most

economists' forecasts

Also, the latest Merrill Lynch-Gallup Survey showed that UK fund managers, while net sellers in the short term, are becoming more optimistic on the outlook for UK equities on a one-year view.

Thirdly, hopes of corporate activity were built into the market. Traders latched on to 3 leaked report discussing the prospect of merging the Guinness and Grand

dued outlook for inflation, thus Metropolitan drinks divisions. That combination of relief and

support saw the Footsie gain almost 9 points by mid morning, with the help of a more positive attitude in the futures market. The contract on the Footsie which expires in September moved back in line with its estimated fair value. It had been trading at a sharp discount.

"Friday's situation on Wall Street has happened before and everyone is very wary about reacting too fast," commented one senior trader. "It is all very technical, and the real key is whether inflation is getting out of hand."

Howsver, another dealer, who arbitrages between the US and UK,

feels that past market rebounds following strong US job numbers might have lulled traders into a false sense of security.

"We are still short on balance and it will be some time before the position is corrected. But I would be very surprised if we didn't see Wall Street down below 5.450 soon, and when that happens I think we are really going to struggle," he said.

For a pointer to inflation, the market has to wait until Friday when provisional US consumer price data for June are published. The figures are expected to be the focus of the week as there is little happening in terms of UK corporate results or economic data.

about to sell a string of high

street bank branches contin-

ned to circulate in the market

yesterday. There was no confir-

mation from the company but

the shares improved 51/2 to

Unigate rose 4 to 399p follow-

ing the announcement of its

proposed acquisition of Kraft's

European margarine and

spreads, which are manufac-

tured in Italy and the UK. One

analyst said: "It's a good deal

which is earnings enhancing."

But the proposed deal adversely affected Geest,

which has long been perceived

as a possible target of Unigate. It fell 11 to 243p even though

Unigate has not exhausted its

to 218n after the Sunday press

gave some additional impetus

to Friday's vague rumours sug-

gesting a possible US counter-bidder was about to upstage

the Lncas-Varity merger talks.

Lucas Industries came off 9

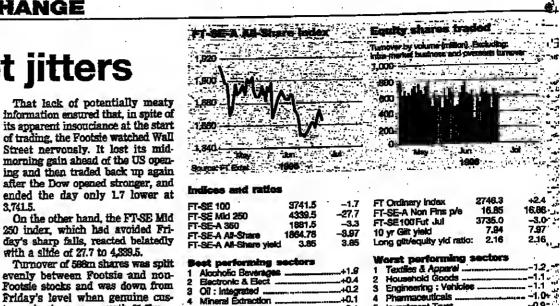
cash mountain.

335 n on the speculation.

That lack of potentially meaty information ensured that, in spite of its apparent insouciance at the start of trading, the Footsie watched Wall Street nervonsly. It lost its midmorning gain ahead of the US opening and then traded back up again after the Dow opened stronger, and

3,741.5. On the other hand, the FT-SE Mid 250 index, which had avoided Friday's sharp falls, reacted belatedly

with a slide of 27.7 to 4,339.5. Turnover of 588m shares was solit evenly between Footsis and nonie stocks and was down from Friday's level when genuine customer husiness was worth £1.7bn.



#### **Spirits** surge on bid buzz

Denials by Gninness that it had any intention of making a hostile bid for Grand Metropolitan, or of demerger, or selling its brewing interests, failed to extinguish speculation over the two stocks.

GrandMet rose 18 to 440p. the fastest moving stock in the Footsie, while Guinness put on 4 at 474p. The market mulled permutations of media reports that Guinness bad asked Lazard Brothers, its lead merchant bank, to review the possibility of a £13bn takeover of one of its main competitors in the

drinks industry. One analyst said Guinness's denial did not rule out a merger and that it had signalled that, should there be a hid for GrandMet, Guinness might be interested in acquir-

ing IDV, its drinks business. However, be cautioned that should there be a merger between the two groups, there might not be a takeover premium for GrandMet shareholders and so shareholder value

would not be maximised. Nevertbeiess, the market was fairly unanimous in its view that the disclosure - and subsequent denial - had not helped Guinness, because it narrowed its options on demer-ger and highlighted the problems facing the spirits industry. By contrast, Lehman Brothers said that the story bad focused attention on Grand Metropolitan's value.

The spotlight on the sector roused some speculative interest in Allied Domecq, which rose one penny to 448p. But an analyst said that if Guinness were not going to pursue GrandMet, with its strong stable of brands, it was unlikely

#### Glaxo dips

to go for second best.

Positive comment from several brokers beiped pharmaceuticals giant Glaxo Wellcome recover from an early retreat, following weekend news that it had lost the latest legal battle in the US to prevent competition for its topselling anti-ulcer drug Zantac.

Having fallen to a low of 857p, the shares recovered to end the session just 8 off at 873p, in volume of 7.7m. Sevanalysts were keen to point out the ruling was not a surprise and many had in fact discounted such an outcome in their outlook for the company.

Losses in the stock were also limited by the prospect of the company making an upbeat presentation at this week's international conference on Aids in Vancouver. Positive news is expected on two HIV treatments - AZT and 3TC and the company is expected to report developments on its new HIV product, currently codenamed 1592, which is now in phase two of clinical trials.

One broker said: "Positive news is expected from Vancouver which should help underpin the shares." Shares in Holliday Chemical

jumped 11 to 144p, encouraged by a recommendation from SBC Warburg.

The broker is said to bave set a 170p target for the stock and believes the company will benefit from the ruling on Glaxo because of its ability to produce Form 1 ranitidine, the active ingredient that Glaxo rivals are likely to use in launching a generic version of

#### **BoS** ahead

In financials, the spotlight fell on Rank of Scotland The stock firmed 3 to 244p, in trade of 3.1m, as Standard Life kicked off a series of presenta-tions to help sell its 32.2 per cent stake in the group.

Vague talk of an Australian group being interested in taking on the whole stake continued to be heard in some quarters, while sentiment was given a further boost by BZW, joint global co-ordinator to the offer, which upgraded its forecast for the year to February 1997 from £589m to £625m. Reports that Lloyds TSB is

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Dealers said there had been little feedback from Wall Street on the story. This one looks to he City specific," said one engi-neering analyst. Lucas holds a shareholder information meet-

ing on its planned Varity link on July 16. Defence shares came in for profit-taking. British Aerospace shed 17 to 964p and Cobham 6 to 641p. A US broker was said to have tweaked its stance on Rolls-Royce lower. The stock gave up 2 to 225p m

7.5m traded. The uncertain tone on Wall Street continued to undermine shares in mobile phone groups

Vodafone and Orange. The former, which has a US shareholder base of more than one third, eased 2 to 235%p as two-way pull propelled turnover up to 21m shares. Orange fell below its March flotation price of 205p for the first time, sliding 31/2 to a new 52-week low of 2041/p.

Cable and Wireless fell 7 to 408p following the shake-out in Hong Kong, where the market came off 2.6 per cent, the steepest one-day decline for almost

General Cable lost 4 at 185p after news of the consolidation of Yorkshire Cable plus an equity financing. The moves stand to expand the group's equity base significantly.

The heat stayed on conglom-erates, with Hanson and Cookson hoth moving lower in above average volume. The demerger update from Hanson sparked initial excitement, as dealers marked the

shares down on what was at

first seen as negative account ing moves. They touched 167%p before closing a net 1/2 off at 171%p in 12m turnover. Weak lately following a steady trickle of profits downgrades, Cookson alipped 8 to

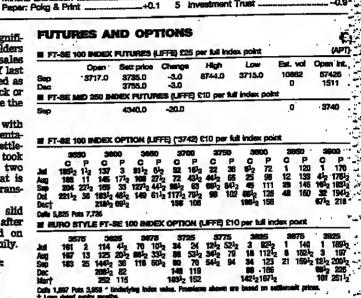
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being able to return a "significant" amount to shareholders as well as like-for-like sales being 13 per cent ahead of last year. Analysts were divided as to whether a share buy-back or a special dividend would be the

most advantageous. British Airways closed with a gain of 41/2 at 5421/4p as tentative hopes for an early settle-ment in the pilots dispute took hold of sentiment. "The two sides are still talking, that is the good news," said one trans-

port analyst. Copier group Eurocopy slid 16 to 74p in 20m trade, after 10m shares were placed on behalf of the founding family.

MARKET REPORTERS: Jeffrey Brown, Lies Wood,



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FT-SE Mid 250 ex ber Tru	ats.	4379.6		4408.9	4409.0		3754.8		1.78			1771.07
FT-SE-A 350		1861.5		1884.8	1882.0				2.06	15.49		
FT-SE-A 350 Higher Yield FT-SE-A 350 Lower Yield		1798.5 1971.7			1977.7				1.92 2.30	12.36		
FT-SE SmelCap		2171.98	-0.6	2186.10	2188.65	2188.33	1872.85	3.00	1.72	24.27	38.81	1787.99
FT-SE SmallCap ax hav Ti	rusts.	2175.36		2157.23					1.81		41.14	
FT-SE-A ALL-SHARE		1864,78	-0.2	1868.75	1875,47	1858.36	1669.97	3.85	2.04	15.95	45.21	1586.62
E FT-SE Actuarie	ES All-	mare	Day's				Year	Div.	Net	PVE	Xd ad	. Total
		Jul 8	chge?	Jul 5	Jul 4	Jul 3	<b>890</b> .	yield%	COVE	ratio	ytd	Return
10 MINERAL EXTRACTO	ON(24)	3535.60	+0.1	3530.50	3553.39	3512.22	2909.81	279	1.83	18.02	79.25	1523.34
12 Extractive industries(5)		4196.53	-0.2	4203.44	1216.74	4272.08	4041.15	3.82	2.52	12.98	109.19	1234.90
15 Oil, Integrated(3)	erro.	3621,08 2489,32		3612.40 : 2475.32 :				3.95	1.72		81.84	
18 Of Exploration 8 Proc					_			2.13		37.17	_	
20 GEN INDUSTRIALS(2 27 Building & Construction		2016.24 1184.48		2024.18 : 1 193.33 :				4.28 3.49	1.87	15.59	46.85	1107.17
22 Building Mede & Merc		1892.64	-0.4	1899.45	1095.63	1873.67	1802.94	4.05	1,66	18.56	47.17	962.77
23 Chemicals(25)	~	2415.99		2422.62				4.13	1.96		61.39	1152,76
24 Diversified Industriate() 25 Electronic & Elect Equ		1544,35 2311,89		1553.54 2301.75				5.74	1.69		56.29 17.87	871.88 1195.01
28 Engineering(71)		2442.25	-0.6	2456,74	2450.63	2448.06	2058.48	3.27	244	15,66	48.54	1491.43
27 Engineering, Vehicles(1		2576,79		3008,47				3.53	1.98	17.91	54.61	1546,42
26 Paper, Poky & Printing 29 Textiles & Apparel(19)	Mool	2584.63 1352.26		2581.22 : 1369.28 :				3.98 5.23	1.59		56.05 42.36	
30 CONSUMER GOODS	R23	3582.06		3591.77				3.91	1,87		81.57	
32 Alcoholic Beverages(8)		2778.55	+1,9	2727.77 2	738.12	2694.31	281 1.59	4.50	1.62		71.90	1008.59
23 Food Producers(24)		2495.11		2503.17				4.17	1.85	16.18		1136.11
34 Household Goods(15) 38 Health Care(20)		2617.93 2102.65		2648.13 2 2109.37 2				3.80 2.57	2.14	15.34 23.63		1004.58 1284.43
37 Pharmeceuticals(13)		5227.29	-1.0	5277.75	2282.32	5196.85	4135.26	3.23	1.86	20.77	91.18	1778.94
38 Tobacco(1)		4180.38		4168.85 4				208	2.12			1050.08
40 SERVICES(254) 41 Distributors(31)		2526.86 2847.10		2530.06 2				2.83	2.00	22.06		1323.24
42 Leisure & Hotels(24)		3171.81		2856.82 2 3189.12 2				3.05 2.79	1.70	24.08		1055,38
43 Media(45)		4165.33		1185.65 4	193,65	4172.17	3189.28	2.17	1.88	30.53	54.14	1518.57
44 Retailers, Food(14)		2004.78 2115.88		2014.33 2				3.82	2.32	14.11	48.71	1286.58
45 Petaliers, General(44) 47 Breveries, Pubs 6 Res	et.(24)	2115.86 3205.93		2115.81 2 3208.17 3				2.95 3.20	2.17 2.12	19.54	45.51 52.53	1218.69 1546.65
48 Support Services(49)		2452.20	-0.3	2405.00 2	453.64	2453.79	1862.68	1.90	2.25	29.35	31.94	1564.88
49 Transport(22)		2329.74		2331.92 2				3.49	1.47	24.41	54,52	978.84
60 UTILITIES(SS)		2273.54		2284.64				5.62	2.02	11.02		979.82
62 Sectricity(11) 64 Gas Distribution(2)		2552.56 1207.99		2572.27 2 1207.59 1				6.37 9.92	2.50 1.38		201.84 66.67	1259.68 633.60
66 Telecommunications(8)		1893.72	-0.3	1900.35 1	932.91	1905.14	2161.55	4.27	1.79	16.37		862.47
68 Water(12)		2147,39	-0.7	2163.54 2	163.23	2149.87	2015.90	5.18	2.33		88.50	1211.04
69 NON-FINANCIALSES	8	1983.38	-0.2	1987.94 1	995.20	1978.52	1813.88	3.66	1.92	16.85	47.57	1514.37
70 FRANCIALS(105)		2898.79		2898.21 2				4.16	2.63		79.12	1258.17
71 Banks, Retail(5) 72 Banks, Merchant(6)		4057,93 3806,13		4053.29 4 3635,31 3				3.84 2.74	2.89			1338.35
72 Banks, Merchant(6) 73 Insurance(23)		1415.83		1416,12 1				5.84	2.61	17,49 8,73	63.39 46.33	1150.86
74 Life Assurance(6)		3367,67	5	3388,12 5	322.01	3295.43	2831.53	4.44	2.24	12.58	100.72	1411.75
77 Other Financial(21)		2611.93		2622.28 2			2102.21	4.01	1.81	17.23		
78 Property(41)		1514A2		515.45			1477.37	4.20	1,25	23.79	36.03	940.54
80 RIVESTMENT TRUST		5097.91		3126.97				2.27	1.11	_		1086.71
89 FT-SE-A ALL-SHARE	900)	1864.78	-0.2	1868.75	875.AT	1858.38	1689,97	3.55	2.04	15.95	45.21	1586.62
FT-BE-A Redging		1239.82		247.82 1				2.81	2.42	18.36	18.31	1300.54
FT-SE-A Fledgling at Inv Tr	USUS.	1253.02	-0.5	1260.70 1	280.34	250.49	1005.64	3.02	2.62			1315.97
W Manufer management	ante											
Hourly movem												
Ope	n 9.00	10.00	11.0	0 12	.00	13.00	14.00	15.00	16.10	High	ı/day	Low/day
FT-SE 100 3723	5 3734.	3738.	3752	.1 374	1.2 3	735.5	3731.3	3735.3	3742.0	373	52.1	3723.3

T-SE SmallCop ex inv											
	Trusts	2175.36	-0.5	2157.23	2188.80	2188.60	1642.83	3.17	1.81	21.85 41.14	1802.5
T-SE-A ALL-SHARE		1884,78	-0.2	1868.75	1375,47	1858.36	1669.97	3.85	2.04	15.85 45.2	1 1586.6
FT-SE Actua	ries All-S	hare									
			Day's				Year	Div.	Net	PVE Xd ac	E. Total
		Jul 8	chige?	Jul 5	Jul 4	Jul 3		yield%	COVE	ratio ytd	Return
						_					
10 MINERAL EXTRAC		3535.60		3530.50				279	1.83	18.02 79.25	
12 Extractive industries	nicat	4196.53					4041.15	3.82	2.52	12.98 109.1	
15 Oil, Integrated(3)		3621,08					2696,23	3.95	1.72	18.35 81.84	
18 Of Exploration & P		2489.32	-0.2	24/5.32	2482.33	24/8.32	1982.02	2.13	1,58	37.17 34.94	1487,2
20 GEN INDUSTRIALS	9(276)	2016.24	-0.4	2024.18	2032,32	2018.82	1981.09	4.28	1.87	15.50 46.83	
27 Building & Construc		1184.48	-0.7	1193,33	1196.97	1193.21	965,89	3.40	1,58	21.36 21.83	994,49
22 Building Medie & M	archa(29)	1882.64					1802.94	4.05	1,66	18.56 47.17	982.77
23 Chemicsis(25)		2415.98		2422.62				4,13	1.96	15.44 61.39	
24 Diversified Industria		1544,35		1553.54				6.74	1.69	10.98 56.29	
25 Bectroric & Bect (	iquip(37)	2311.89					2025.52	3.38	1.82	22,99 17.87	
28 Engineering(71)		2442.25					2058.48	3.27	244	15,66 48,54	
27 Engineering, Vehicle		2575.79		3008.47				3.53	1.98	17.91 54.61	
25 Paper, Poky & Print		2584.53					3118.73	3.98	1.99	15.84 56.05	
29 Textiles 6 Apparai(1	9)	1352.26	-1.2	1369.28	1366.13	1357.88	1636.53	5.28_	1,59	15.08 42.36	834,67
30 CONSUMER GOOD	35(82)	3582.06	-0.3	3591.77	3806.06	3554.52	3248.12	3.91	1.87	17.12 81.57	1330.53
32 Alcoholic Bevesages		2778.55		2727.77				4.50	1.62	17.18 71.90	
23 Food Producers(24)		2495.11		2503.17				4.17	1.85	16.18 66.16	
34 Household Goods(1	5)	2617.93	-1.1	2648.13	2655.41	2632.01	2000,81	3.80	2.14	15.34 56.43	1004.56
36 Health Care(20)		2102.65		2109.37				2.57	2.05	23.63 34.90	1284.43
37 Pharmecouticals(13)	}	5227.29	-1.0	5277.75	5292.32	5196.85	4135.26	3.23	1.86	20.77 91.18	1778.94
38 Tobacco(1)		4180,38	-0.2	4158.85	4243.91	4160,36	4279.25	2.08	2.12	2.70 156.10	B 1050.08
40 SERVICES(254)		2526.96	-010	2530,06	2528 DS	2510 00	2118 68	2.83	2.00	22.06 52.60	1323.24
41 Distributors(31)		2847.10		2856.92				3.05	1.70	24.08 51.03	
42 Leigure & Hotels(24)	3	3171.81		3189.12				2.79	1.99	23.65 152.8	1717.50
43 Mediai46		4155.33		4185.65				2.17	1.88	30.53 54.14	
44 Retailers, Food(14)		2004.78		2014.33				3.82	2.32	14.11 48.71	
45 Petallers, General/4	4)	2115.88		2115.81				2.95	2.17	19.54 45.51	
47 Breveries, Pubs 6		3205.93		3208.17				3.20	2.12	16.47 52.53	
48 Support Services(49		2452.20		2485.00				1.90	2.25	29.35 31.94	
49 Transport(22)		2329.74		2331,92				3.49	1.47	24.41 54.52	
ec ununesissi		2273.54	-033	2284.64	2309 27	2285 23	2484 12	5.62	2.02	11.02 83.86	
62 Bectricity(11)		2552.56		2572.27				6.37	2.50	7.83 201.8	
64 Gas Distribution(2)		1207,99		1207.59				9.92	1.36	9.28 66.67	
66 Telecommunications	(5)	1893.72		1900.35				4.27	1.79	16.37 12.58	
68 Water(12)		2147,39		2163.54				6.18	2.33	8.70 88.50	
	eare	4002 20						7			
69 HON FRANCIALS	748	1983.38	-02	1987.94	199050	18/0.54	1613.00	3.66	1.92	16.85 47.57	1514,37
70 FRANCIALS(105)		2898.79	7	2896.21	2907,07	2886.11	2497.73	4.16	2.63	11.42 79.12	1258 12
71 Banks, Retal(S)		4057.93		4053.29				3.84	2.89	11.27 110.0	
72 Barries, Merchantille		3806,13	-0.83	3635,31	3645.36	3636.42	3401,87	274	2.61	17.49 53.39	
73 Insurance(23)		1415.88	+0.1	1416,12	:432.08	1423.20	1328.63	5.84	3.18	8.73 48.33	
74 Life Assurance(6)		3367,67		3388,12				4.44	2.24	12.58 100.72	
77 Other Financial(21)		2611.93	-0.4	2622.28	2622.25	2634,36	2102.21	4.01	1.81	17.23 62.05	
78 Property(41)		1514.42	-0.1	1515.45	1520.75	1822.26	1477.37	4.20	1.25	23.79 36.03	
	CTOHAE.	3097.91			_						
SO RYVESTMENT TRU	24-25			3126.97				2.27	1.11	49.59 42.89	1086.71
89 FT-SE-A ALL-SHAF	E(900)	1884.78	-0.2	1868.75	875,47	1858.38	1689,97	3.55	2.04	15.95 45.21	1586.62
T-BE-A Fledging		1239.82	-0.6	1247.82	1248 Dt	1247.32	1045.38	2.81	2.42	18.36 18.31	
T-SE-A Fledgling ex Inv	Trace	1253.02		1260.70				3.02	2.62		
LOCAL LANGUAGE OF MA	***************************************			1202.10	LULL	120203	100000	3.02	2.62	15.82 19.92	1315.97
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	74.7 1578.9	1000.1		- 100	71.7	0134	10112		1001.	7 1886.2	1674.6

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British Rail The Sale of Scientifics British Refereys Board (BRB) Invites organisations to register their potential interest in purchasing Scientifics, a subsidiary company within BRI. This is an opportunity to acquire a business with a strong presence in the UK referency restrict and an exhibitional restricts hand. Over the year, Scientifical sales income has risen and it has insureded sales outside the railway industry. Unaballed barrower for the 12 months ended 31 Morch 1986 was 1/4 Cm. The business has entiressed practical experience in occupances has entirely and observational hyperia, analysical and observational science and materials testing and technology. Sensitial provided include:

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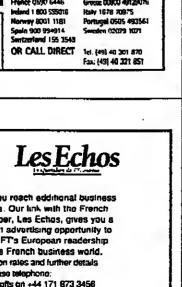
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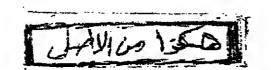
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	FINANCIAL TIMES TUESDAY JULY 9 1996 *							
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13 AVA Amos Esqu 21 15<sup>1</sup>4 August 19<sup>1</sup>5 8<sup>1</sup>4 August 19<sup>1</sup>5 8<sup>1</sup>4 August 19<sup>1</sup>5 19<sup>1</sup>5 20<sup>1</sup>5 19<sup>1</sup>5 19<sup>1</sup>

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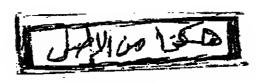
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# **US** stocks hold steady at midsession

#### **Wall Street**

The US stock market surprised many on Wall Street by holding steady in the wake of Friday's sharp sell-off that sent the Dow Jones Industrial Average down by nearly 115 points during the half-day session, writes Lisa Bransten in New

At 1 pm the Dow was up 4.06 at 5,592.20, while the Standard & Poor's 500 lost 0.28 at 657.16 and the American Stock Exchange composite ahed 2.33 to 572.00. Volume on the New York Stock Exchange came to 197m shares. Shares tumbled along with

bonds on Friday after surprisingly strong data on June employment and wage levels sparked fears that the Federal Reserve might raise interest rates aggressively in the near term. Many analysts believed that the decline would continue yesterday because many investors were ont of their offices on Friday because of the Independence Day hobday. Mr Eric Miller, chief investment officer at Donaldson, Lufkin & Jenrette, attributed yes-

terday's stability in the equity market to the steady bond market, where the benchmark 30year Treasury edged higher in early afternoon trading. "If the bond market doesn't haemorrhage, the stock market

won't," he said. "Anything that threatens a new high in [long term interest] rates and I think the stock market is going to suffer some."

Technology chares were stronger. The Nasdaq composite. Which is weighted toward that sector, put on 2.63 at Exchange technology index

firmed 0.4 per cent. IBM was among the strongest performers of the 30 companies in the Dow with a gain of \$1% at \$99%. Motorola aped \$2% to \$68% as investors hoped that the computer chip and cellular telephone company would report strong earnings later this week.

Meanwhile, Tandy, the consumer electronics retailer, slid \$3% or 9 per cent to \$41% after warning that second-quarter earnings would be below those from the comparable period

Honeywell dipped \$% to \$51% on news that an appeal court had upheld a jury finding that the company had infringed on a patent held by Litton Industries. Thew latter slipped \$% to \$42% on the news.

Toronto was weak in midsession trade after the inflation worries that shook Canadian and US markets on Friday. The TSE 300 composite index was 14.39 down by noon at 5,048.40 in volume of 31.7m shares. Golds rose on stronger bul-lion prices in early trade, but

sened as prices slipped. The Calgary-based Petromet Resources was actively traded, picking up 4 cents to CS2.55.

Banking stocks continued their slide from Friday. Bank

of Montreal receded 20 cents to Gold stocks were mixed. Arequipa Resources recovered, rising 85 cents to C\$19.15, after falling on Friday on disappointing drilling results from

#### Mexico down 1.5%

There were variations in the performances of the region's equity markets, with MEXICO CITY off 1.5 per cent by mid-day. The IPC index was down 45.56 at 3,060.36 as fears returned of a possible rise in domestic interest rates during the course of the week. Televisa, the media group, was one of the heaviest casual-

ties, losing 4 per cent after breaking through a technical support level on Friday. The fall was attributed mainly to interest rate worries.

SAO PAULO was moving in a different direction as the Bovespa index picked up 586.57 to 63,451 by early afternoon. On Friday the market had dropped 2.3 per cent.

	% change in level curvecty f				% change starting †	% day
	1 Week	4 Works	1 Year	Start of 1991	Start of	Start of 1984
Austria	-0.31	-6.16	+2.47	+11.75	+4.47	+4.63
Belglum	+1.33	+0.63	+19.12	+7.88	+0.80	+0.88
Denmerk	+0.75	+2.79	+19.33	+11.93	+5.21	+5.30
Finland	+0.99	-0.64	-13.50	+10,79	+2.94	+3.12
France	-0.86	-0.06	+12.44	+15.07	+8.79	+8.67
Germany	+0.30	+1.33	+19.57	+12,29	+5.01	+5.19
reland	-1.22	-1.23	+22.04	+11.31	+10.60	+10.7
taly	+0.65	+0.21	+3.89	+8.07	+11.72	+11.9
Netherlands	-0.41	-0.44	+28.99	+15.75	+8.07	+8.25
Norway	+1.53	+0.53	+14.47	+13.15	+9.52	+9.71
Spain	-1.57	+1.14	+28.88	+15.30	+8.74	+8.93
Sweden	-1.21	-2.12	+16.94	+13.26	+12.30	+12.50
Switzerland	+0.11	+4.86	+30.97	+12.63	+2.53	+2.7
UK	+0.91	+0.82	+10.50	+2.09	+2.09	+2.2
EUROPE	+0.19	+0.87	+15.96	+8.98	+5.08	+6.20
Australia	-0.82	-0.1e	+9.22	-0.64	+5.52	+5.70
Hong Kong	+0.69	-0.40	+18.30	+12.24	+11,91	+12.11
Japan	-1.25	+1.79	+38.44	+6.17	-1.41	-1.23
Maleysia	+0.11	+0.66	+6.00	+13.45	+15.46	+15.63
New Zealand	+1.72	+4.64	-1.48	-2.38	+2.27	+2.4
Singapore	-1.07	-2.04	+6.12	+1.09	+0.95	+1.13
Canada	+0.41	-1.36	+10.94	+8.17	+7.61	+7.79
USA	-1.92	-2.49	+19.71	+6.47	+6.29	+6.47
Mexico	-2.80	-4.1a	+34.96	+13.86	+14.78	+14.96
South Africa	+0.39	+0.22	+27.02	+12.16	-5.88	-5.72
WORLD INDEX	-1.03	-0.44	+22.68	+7.28	+4.28	+4.40

FT/S&P ACTUARIES WORLD INDICES

# Hesitant bourses make up some of lost ground

The Continent apent an des Eaux slipped after France uncomfortable morning waiting for the opening of Wall cutting prices by nearly 13 per Street, before recovering some lost ground later in the day as the US stock market remained

PARIS was weak in the morning as worries persisted about another decline in the US, but during the afternoon there was a different story which was sufficient to lift the CAC-40. The index, after a eession low of 2,065.04, ended at 2,079.06, down 19.73 on the day. Turnover was FFr4.2bn.

Docks de France remained in the news, although turnover was on the low side, as rumours developed that Tesco, of the UK, might be about to mount a bid. The French group finished FFr14 up at FFr1,222. Last week Auchan, a private company, launched a hostile

FFr537 and Suez FFr3.90 eaker at FFr182. However, Credit Local went against the trend with a rise of

bid valued at FFr1,250 a share. Financials were mixed, with BNP loaing FFr3.30 to FFr176.60, Bancaire off FFr9 to FF566, Paribas down FFr3.30 to FFr296.40, SocGen off FFr14 to

FFr9.60 to FFr423.80 after a broker's positive recommendation of the group. Both Bouygues and Générale

cent. Bonygues, which owns Bouygues Telecom, lost FFr5 to FFr564, and Générale des Eaux FF15 to FF1546.

FRANKFURT took its lead from the US in fairly muted trading conditions. The Dax index dipped 82.45 to 2.551.04. but after Wall Street's opening the Ibis moved to 2,561.51. Turnover was DM6bn. investors were also slightly wary ahead of today's German

June unemployment data, while prospects for a cut in domestic interest rates by the Bundesbank on Thursday were dashed after the president of the bank said there were no economic grounds for a move. Mannesmann gained DM6.20 to DM529, then to DM530 in the Ibis, following a buy recommendation from Deutsche Morgan Grenfell, which lifted its rating from neutral to overweight. The broker forecast that the mechinery manufac-turer would see earnings per

share of DM36.20 in 1998, as against DM32.50 in 1996 and DM27.60 in 1997. Thyssen rose DM3.50 to DM299 as speculation continused that it would succeed in

buying a stake in the German

THE EUROPEAN SERIES 15.00 14.00 15.00 Circu 10.30 11.00 12.00 PT-9E Eminanck 100 1687.85 1686.64 1687.85 1687.36 1686.17 1683.17 1683.17 1686.42 PT-9E Eminanck 200 1736.41 1728.03 1727.95 1726.01 1728.24 1724.07 1727.36 1728.13 JH 5 44 4 1702.23 1735.19 1702.78 1708.94 1738.95 1701.31 1731.91 FT-SE Euroback 100 FT-SE Euroback 200 1734.01

AMSTERDAM was stable in subdued trading conditions. The AEX index finished down 4.48 at 554.45

There was interest in the publishing sector, with Wolters Kinwer gaining F11.80 to F1192.80 as Elsevier eased 10 cents to FI 26.

But it was the financial sector that bore the brunt of the falls. ING down F11.10 at F140.10, ABN Amro off F11.90 at F189.40, Aegon F11.10 lower at F180.10 and FortisAmev F11 easier at F1 48.30.

Among the internationals, Royal Dutch lost F12.50 at F1261 and Unilever fell F11.60 Hoogovens, the steel and alu-

minitum company, advanced 20 cents to Fl 61 in spite of a broker's downgrade last week. MILAN trimmed early losses taking its lead from Wall Street and with little in the

occurring in the communica-

tions sector. Shinawatra Com-

puter and Communications

dropped Bt22 to Bt500 and

Advanced Info Service, an

operator of a mobile telephone

service, fell Bt16 to Bt382 in

KUALA LUMPUR steadled,

after an early stumble, on

renewed buying of small-capi-talisation issues, and the com-

posite index ended 3.81 softer

at 1.129.37 after a low of

1.114.35. SEOUL saw profit-tak-

ing which erased early gains,

and the composite stock index

volume of 188,800 shares.

the prices. The Comit index fell 6.15 to 654.28, while the realtime Mibtel index was 65 weaker at 10 449, after a dav's low of 10,400. Turnover was estimated at a thin L400bn. IMI fell L226 to L12,060 after

the treasury said it had con-cluded the sale of the last

tranche of the investment bank

at L12,040 a share. Among the day'e gainers, ENI rose L23 to L7,523 and Olivetti jumped L19.5 to L8.825.
The telecommunications sector was weak, with Telecom Italia down L75 to L3,227 and

Tim L72 lower at L3,505.

ZURICH shrugged off early losses towards the end of the session, with index-related transactions playing a promi-nent role in the day's trade. The SMI index picked up from a low of 3,686.5 to end 1.6 up on

the day at 3,732.8. UBS bearers put on SPril at SFr1,252, supported by a war-

SINGAPORE featured fur-

ther selling in Singapore Tele-

com, down 14 cents to \$33.50.

compared with its all-time high

The Straits Times Industrial

index lost 37.65 at 2,221.81 as a

broad sell-off in the electronics

sector sent Goldtron down 9

BOMBAY moved ahead in

extended trading hours after a

power failure disrupted operations. The BSE-20 index

picked up 23.71 to 8,730.72 as

activity remained focused on a

few pivotal shares, supported

by news that the government

was to reduce a planned rise in

WELLINGTON declined in

thin turnover and the NZSE-40

capital index closed off 22.89,

of S\$4.10 set on June 3.

cents to S\$1.00.

diesel fuel tax.

strike price of SFr1,250. Nestlé rose SFr13 to SFr1.472. still driven by last week's rumours of a restructuring.

COPENHAGEN saw pres on Tele Danmark, which plunged 4 per cent after announcing that a steep rise in marketing costs would dent its first half 1996 result by DKr500m, while price reductions on mobile and international calls would cost DKr100m. The shares subsequently rallied to finish DKr9 down on the day at DKr286 and

the KFX top-20 index closed 0.38 off at 116.82. OSLO was dragged lower by a fall in Norsk Hydro, after a Salomon Brothers study foreeast that a sharp rise in petroleum income was expected to be offset by a downturn in revenues in the chemicals sector. leaving the 1996 results little

changed on 1995. Hydro, with a weighting of ground 20 per cent in the Total index, declined NKr5.50 to NKr310.50, as the Total index slid 7.50 to close at 837.09. STOCKHOLM was shored up

hy a strong performance in Astra as the drugs group recovered from the negative trend of previous sessions. Astra rehounded SKr5 to SKr279 as the Affarsvärlden

Turnover came to NZ\$27m.

Telecom was one of the major

casualties, off 11 cents to

Forestry stocks were also

weak, with Carter Holt Harvey

down 4 cents at NZ\$3.39 and Fletcher Challenge Paper drop-

ping 9 cents to NZ\$2.79. SYD-NEY saw the All Ordinaries

JAKARTA remained volatile.

although trading conditions

were thin, as uncertainties sur-

rounding President Suharto's

health kept many investors

sidelined. The JSX index eased

Some dealers commented

that equities managed to hold

ateady in spite of falling heavily late last week. Others

mentioned that concerns over

index fall 39.6 to 2,191.2.

NZ38.15.

1.21 to 573.83.

rant expiring in mid-July at a general index eased 0.9 to

ISTANBUL touched an alltime peak as the Islamist led government won a confidence vote in parliament. The composite index rose 995.16 to 73,531.30, but off a session high of 74,780. Turnover eased to TL9,150bn from Friday's TL9,930bn. The market gained 3 per cent last week as opti-mism built that the government would win the vote.

WARSAW could not hold on to Friday's 27-month high as profits were taken. The Wig index slipped 1.9 per cent to 14,003.9 as turnover fell by 26.6 per cent to 122.7m zlotys. Losers led gainers by 61 to six, with eight stocks unchanged.

Universal rose 2.8 per cent. after surging 20.1 per cent last week on news of a 6.3m zlotys

VIENNA was another market which fell steadily. The ATX index managed to make a modest recovery from a morning low before closing 8.90 down et

1.076.72. Radex Heraklith led the losers, dropping 2.4 per cent to Sch323, while VA Tech was the main gainer, advancing 0.45 per cent to Sch1,345.

Written and edited by Michael

Mr Suharto's health had eased

Bimantara, which is con-

trolled by Mr Suharto's second

eon, Bambang Trihatmojo,

Inter Delta, an electronics

stock, rose 24 per cent, or

Rp425, to Rp2,225 on rumours

that the company was a take-

over target.
TAIPEI encountered profit-

taking in the electronics sec-

tor. The weighted index lost

53.29 at 6,327.46. Turnover was

Electronics shares dropped 2.3 per cent, with Taiwan Semi-

conductor Manufacturing off

MANILA retreated from the

4.5 per cent, or T\$2.50, to T\$53.

record high seen on Friday and

the composite index fell 54.24,

or 1.6 per cent, to 3,320.16.

e modest T\$32.52bn.

rebounded Rp75 to Rp2,625.

at the weekend.

# Nikkei dips below 22,000 as Hong Kong drops 2.6%

#### Tokyo

The rise in the dollar against the yen led to fears of import inflation and a shift in monetary policy by the Bank of Japan. The Nikkei average closed below the 22,000 level for the first time since June 11, urites Emiko Terazono in

its Pierina property in Peru. Placer Dome slipped 45 cents to The Nikkei 225 index lost 307.48, or 1.4 per cent, at 21,924.94 after moving between 21,801.75 and 22,148.11. Concern over interest rates triggered heavy selling on the futures market, which in turn led to arbitrage unwinding, Friday's fall on Wall Street also unnerved investors, making many refrain from trading.

Volume was 286m shares, against 282m, falling below 300m for the third consecutive trading day.

The Topix index of all first section stocks fell 21.06, or 1.3 per cent, to 1,669.44. The Nikkei 300 lost 3.96 to 309.68. Declines led advances by 973 to 114, with 122 issues unchanged. In London the ISE/Nikkei 50 index gained 1.29 at 1,488.23. The dollar rose above the Y111 level for the first time since January 1994, raising

concerns of import inflation. The yen's previous strength had boosted the amount of imports into Japan, and some investors were worried about the negative impact on domes-

Interest rate fears and arbitrage linked selling hit banks. Industrial Bank of Japan lost Y20 to Y2,610, Bank of Tokyo-Mitsnbishi declined Y40 to Y2,430 and Dai-Ichi Kangyo single-day loss in four weeks. The SET index weakened 16.72 to 1,241.27 in turnover of Bank fell Y20 to Y1,960. Daiwa Securities, which had lost ground last week on Most of the major stocks in the leading five sectors ended down, with the biggest loss

further, declining Y80 to The weak yen failed to help exporters: technology issues fell, with Hitachi off Y20 to Y1,030 and Toshiba retreating Y5 to Y760. Sony declined Y60

reports of irregular trades, fell

to Y7,120 in spite of early buying by foreign investors. In Osaka, the OSE average receded 304.63 to 23,167.74 in volume of 15.8m shares.

#### Roundup

Regional markets took their cue from the sharp declines in US stocks and bonds on Friday after a stronger than expected employment report which rekindled worries that the Federal Reserve would raise inter-

HONG KONG posted its bigest single-day loss in near four months as renewed fears of rising interest rates drove investors out of the market. The Hang Seng index finished 287.08, or 2.6 per cent, down at 10.890.05, but up from e day's low of 10,844.91. Turnover surged to HK\$6.3bn.

Few sectors were spared as investors liquidated even so-called defensive stocks, such as utilities. China Light receded 60 cents to HK\$34 and Hong Kong Telecom shed 40 cents to HK\$13.40.

#### S African gold shares rally

172.49 195.82

Johannesburg's industrial stocks closed off the day's worst levels but still weak after taking their lead from Friday's drop on Wall Street. Gold issues finished strongly as players took cover on the

better bullion price and expec-tations of good gold mining quarterly results, due to be eleased from Thursday. The overall index shed 31.8

to 6,873.3, industrials fell 55.5 to 8,132.4 and the gold shares index improved 38.3 to 1,853.9.

Loraine inmped R2.50, or 14.3 per cent, to R20.0, Vani Rects advanced R12.50 to R380 and Dries put on R1.25 at R61.50, but Anglos retreated R2.50 to R268. SA Breweries declined R1.25

to R125.75 and First National slipped 50 cents to end et R30.

# BXECIII

LIFFE's Three Month ECU Future

#### Designated Market Makers

istituto Bancario San Paolo di Torino S.p.A.

Kredietbank N.V.

NatWest Futures Limited (acting on behalf of NatWest Markets)

SGF Chase Futures & Options (acting on behalf of Chemical Bank)

**UBS Futures & Options Limited** (acting on behalf of Union Bank of Switzerland)

On 18 June LIFFE renewed its Designated Market Maker scheme for the Three Month ECU futures

The Designated Market Makers are now committed to the tightest bid/offer spreads and greatest size ever: four ticks maximum, fifty lots minimum on all eight delivery months.

This is important news, particularly for the execution of business in the four back months of the contract, where you can now get better liquidity for all of your trading needs.

For further information on LIFFE's Three Month ECU futures contract please contact David Angel or Richard Powell (tel. +44 171 379 2436/2419) at

LIFFE's Three Month ECU Future. Trading from Strength to Strength.



The London International Financial Futures and Options Exchange

The FT/SSP Actuaries World indices are owned by FT-SE international Limited, Goldman, Sechs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International Continues and the Institute of Actuaries. MatWest Securities Ltd. was a co-lounder of the Indices.

MATROMAL AND
REGIONAL MARROTTS
FFIDAY JULY 5 1986

FFIDAY JULY 5 1986

THURSDAY JULY 4 1986

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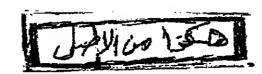
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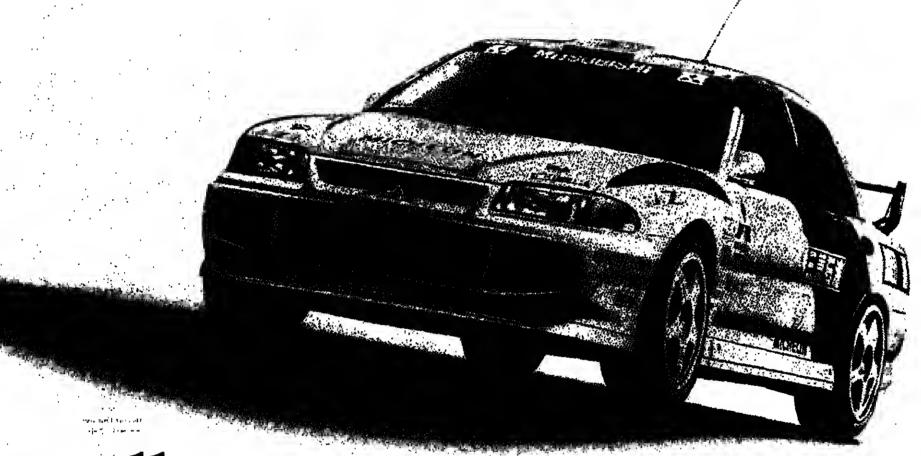
Manth ECU Fact.

DAY JULY 9 1996

1996 World Rally Championship



# Winning's not our top priority...



WRC efforts: the testing and development of new automotive systems and technologies in the harshest driving conditions on earth. And once we've got a winning technology, it's immediately adapted to our Mitsubishi production cars, making you the biggest winner of all.

Oh, and by the way, we did take the overall victory in Argentina.









CREATING TOGETHER

Subject to the official publication of the results by the FIA

# Share system still not authorised

Banking Editor

Final agreements to allow the Crest paperless share settlement system to start next week were still in negotiation vesterday following disagreements over who will bear liability if it fails to work.

CrestCo, the company that will run Crest, said that it was still signing agreements with the companies that will run its electronic network. It has yet to gain authorisation from the Securities and Investments Board, the main City of Lonthat must electronically adjust ownership of company shares within two hours of a trade were pressing for these companies to bear the costs of fines if the network breaks down and

stops them meeting contracts.

We think it is unfair if we suffer a penalty for something that is not our fault," said Mr Tom Morrison, the chief registrar of the Royal Bank of Scotland. RBS is one of the largest registrars intending to take part in Crest.

The executive committee of SIB is expected to meet later in

operate as an electronic share settlement system and an electronic clearing house. Crest is due to begin a phased start to operations next Monday.

CrestCo has already conceded the principle of placing a cap on fines that can be levied on registrars for failing to meet service standards. However. registrars have also pressed to escape fines for failures due to network failures.

Lloyds Bank, another large registrar, said it expected to sign a contract with Crest imminently. It said it thought the main areas of contention the week to authorise Crest to between it and the network

ferry operations is out of the

question," said another ana-

A limited pooling arrange-

ment would allow the compa-

nies to agree a matched reduc-

tion in the number of daily sailings. But it would prevent

the considerable savings which

could be achieved by joint mar-

keting and reducing the size-

At Stena, UK staff emphasise

the company's keenness on

running "stand alone" ferry

services, though Mr Bo Leren-

ius, the chief executive, says

pooling arrangement - not just

Last year saw the end of a

long-running pooling agree-

ment on the Dover-Calais run

with SNAT, a subsidiary of

SNCF, the French state-owned

railway. A new agreement

involving the ultimately state-

owned SNAT, which now mar-

kets itself as SeaFrance, would

complicate matters at this

However, while 1996 is expec-

ted to be the worst year for the

cross-Channel ferry operators,

profits could bounce back in a

year or so when the tunnel is

hlanche in their worst year

"Giving the ferries carte

operating at full capacity.

with P&O.

is interested in a possible

able advertising budgets.

providers - Swift and Syntegra had now been resolved. Crest is to replace the Talisman share settlement system

owned and operated by the London Stock Exchange. Crest is owned by about 60 large institutions, and has been developed under Bank of England, UK's central bank, It would be awkward if Crest

was unable to start as on time since it has a complex timetable to meet if it is to take over from Talisman entirely by next spring. However, it is widely expected to meet the deadline despite these issues.

unusual for a project of Crest's complexity to he authorised just before it was due to start

Mr Morrison said that RBS was still waiting to hear if the network providers would bear the cost of fines on registrars when the network failed. The alternative was that CrestCo might not levy fines on registrars in such cases.

CrestCo said that it did no believe there were substantial issues still to resolve, and the disagreement had simply been part of normal business negoti-

#### Patten promises European 'crusade' By Lionel Barber

Mr Patten, stairing out a leading role in the governing Conservative party after the

Without mentioning monetary union, Mr Petten signalled that eastern enlargement was a higher priority. cannot help but compare the speed and vigour which we opened our arms to Greece, Spain and Portugal after the end of the fascist governments with the more cautious pace with which we have proposed welcoming the Warsaw Pact."

If Mr John Major were to

Mr Chris Patten, governor of Hong Kong, yesterday declared he would return bome and mount a personal crusade to put Britain back "at the heart of Europe" once he completes the handover of the colony to China in mid-

next UK general election, said be was ready "with all the pas-sion I can muster" to "knock on doors" to promote the pro-European cause in Britain. The party to which I belong. and of which I was once chairman, was associated with the historic, important and belated decision to join the European Community. I want to remain in a party dedicated to the successful membership

of the European Union." Mr Patten was speaking in Brussels on an official visit to press for visa-free access to the EU for Hong Kong residents, and to canvass political sup-port during the transition to Chinese rule.

The governor made clear he thinks the anti-European drift inside the Tory party has gone too far. "I believe very strongly that Britain's role is to be at the heart of Europe. It is inconceivable to imagine circumstances in which Britain was not a member of a prosperous and decent European Union

lose the next election, to be held by next May, Mr Patten's chances of succeeding him are rated as slim, partly because of possible difficulties finding a House of Commons seat.

# English Channel ferry operators may link up

More co-operation could ease the pricing war

People travelling between Britain and mainland Britain and discounter Europe this summer have an unrivalled choice of ferry sailings across the

The number of ferry departures on the Dover-Calais route has increased sharply since the opening of the Channel runnel linking Britain with mainland Europe, while ticket prices have been slashed.

But the frenzied activity on the quayside finds no echo in the boardrooms of the companies which own the slups. P&O and Stena, the two main operators on the cross-

Channel routes, are keen to limit competition. However, they are bound by undertakings given in 1982 that they would not merge their activi-

This enforced inactivity could change this week, if, as is widely expected, the government gives its approval for the lifting of these undertakings. A stockbroking analyst said

that with the tunnel claiming a market share of 40 per cent to 45 per cent, "there is no reason now for the government to continue its han". However, he added that reaching an agreement between the companies will be a cat and mouse came

with neither side wanting to give away too much". P&O has more ships in UK

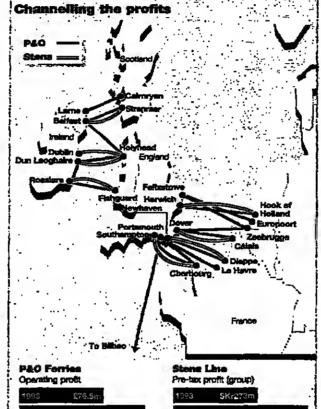
waters - 23 against Stena's 19 - but Gothenburg-based Stena has a wider range of routes in Scandinavia which provide a cushion against competitive pressures in the Channel.

P&O has a larger share of the Dover-Calais market - 30 per cent against Stena's 20 per cent - but this is a route where shipping operations make a loss and the only profits come from duty and value added tax-

"P&O needs the deal more," said one analyst. "Lord Ster-ling [the chairman] is under greater shareholder pressure to improve the company's perfor-

Stena, too, has been feeling the heat generated by the Channel tunnel's opening, Last month it issued a profits warning forecasting 1996 pre-tax profits even lower than the SKr201m (\$30m) for last year, which in turn was less than half the 1994 figure. Even if the UK competition

authorities sanction discussions, they will not want to remove all restrictions on the ferry operators' freedom of



could come back with a vengeance when they are doing well," said one analyst. "The answer may be to allow them to co-operate for a limited

With the cost of the cross-

Channel battle mounting hy the month, the protagonists will be grateful for any relief though travellers could end up paying higher fares.

Charles Batchelor

# Banks to pursue Iraq över £500m of defaulted loans

By Jimmy Burns in London

A group of banks, backed by the UK's Export Credits Guarantee Department, have notified the High Court in London that they intend to pursue claims for ehort \$500m (\$778m) in loans which Iraq has defaulted on.

Under the statute of limitations - a UK law covering the recovery of debt - the banks were facing the expiry of a sixyear period in which they had to serve notice of their intention to take legal action to recover the loans. Transactions between Iraq and western banks were frozen under United Nations sanctions following President Saddam Hussein's 1990 Kuwait invasion.

the ECGD. fell due in 1992 and 1994, and include those funding defence-related exports.
The ECGD said: "We had to

pre-empt any legal action by iraq to declare the debt invalid after six years."

The banks include Midland,

Morgan Grenfell, Barclays, National Westminster, Bank of Kuwait, Arah Banking Corporation, and Banque Paribas. Banks in the UK have approximately \$1bn in Iraqi assets fro-zen by the Bank of England during the Gulf War.

Banks would need to take legal action to have the funds sequestrated and used to secure repayment. The UK gov-ernment is unlikely to give the go-ahead for any move on the blocked Iraqi funds in the short term.

The Iraqi government departments named in the High Court writs issued by the banks include the Ministry of Industry and Military Manufacturing, and the Ministry of Water and Sewerage

The move comes four months after the publication of the Scott arms-for-Iraq report which confirmed the extent to which UK's commercial links with Iraq , including military ties, were underpinned with trade credits approved through UK NEWS DIGEST

# BA pilots agree to negotiations

Talks aimed at averting next week's planned strike by British Airways pilots are due to start today with both sides expressing hopes of reaching agreement. The hreakthrough followed an initiative yesterday by Mr Chris Darke, the general secre-

tary of Balpa, the pilots trade union. In e letter to Mr Robert Ayling, BA's chief executive, he called for e resumption of negotiations, saying it was in their mutual interest to try to find a solution to a dispute that could inflict serious financial damage on the company. BA's 3,500 flight crew staff are to take indefinite industrial action from

BA said last night that this was a positive development. "We have been trying to get the union to the negotiating table for some days," it said." "We will listen carefully to whatever Balpa has to say. We want to identify what the core of the problem is and see whether we can find reasonable ways of Robert Taylor, London

LONDON UNDERGROUND

#### Employers say strike crumbling

Nearly 40 per cent of London Underground services ran normally yesterday in the first sign that the drivers' strike may be crumbling, London Transport said. The Aslef train drivers' union executive will decide today whether to attend peace talks with the conciliation service Acas to try to resolve the dispute. The drivers' next one-day strike is due next Tuesday. Tomorrow the result of a strike ballot of Underground drivers belonging to the larger RMT transport union is due to be

NORTHERN IRELAND

#### Parties threaten to quit talks

Unionist politicians last night threatened to withdraw from the all-party Northern Ireland peace talks because of the stand-off between fiercely Protestant Orange Order supporter and the Royal Ulster Constabulary in Portadown, Northern Ireland. As the province braced itself for further violence, Unionist sources said that Mr George Mitchell, the former US senator chairing the talks, would be told of the parties' intentions today.

It was understood that the Ulster Unionist party. Mr Ian Palsley's Democratic Unionist party and the United Kingdom Unionist party were intending to boycott the talks. For the second time in 24 hours, the police fired plastic bullets to disperse loyalist demonstrators at the tense stand-off at the Drumcree church outside Portadown. As evening approached on the second day of the clash, a crowd of some 400 Orange-men was bolstered by the arrival of loyalist supporters from outside the area. John Murray Brown, Belfast

**ECONOMICS** 

#### Manufacturing output stagnates,

The enfeebled state of Britain's manufacturing sector was highlighted yesterday by official figures showing that factory production stagnated in May while industrial prices and raw material costs both fell last month. The figures - which came on the eve of the summer economic forecast by Mr Kenneth Clarke, the chancellor of the exchequer - underline the dichotomy in Britain's "two-speed" economy; growth in manufactur-ing has ground to a balt, while output in the service sector is

The figures make it more likely that Mr Clarke will try to squeeze in another cut in UK interest rates next month. But some officials at the Treasury and the Bank of England, the UK central bank, fear this would be Ill-advised as they expect manufacturing to rebound strongly later this year.

The Office for National Statistics said that factory output was unchanged in May, but the statisticians revised up their original estimate of output in April by a fifth of a percentage point. The underlying trend in factory output has now been flat for six months.

Robert Chote and Gillian Tett, London

**BROADCASTING** 

#### BBC to announce new team

The BBC is expected to announce this week the team in the BBC News Directorate, which will be responsible for making World Service programmes, in an attempt to head off criticism of its management restructuring. On Friday Mr Sam Younger, managing director of the World Service, announced to staff the three people who will be in charge of World Service com-missioning. They are Mr Bob Johhins, who will be in charge of news, Ms Penny Tuerk, non-news programming, and Mr Chris Gill resources.

Restructuring of the BBC into functional units will deprive the World Service, the corporation's English language over-seas service, of its programme-making capacity. A World Service commissioning team will buy in pro-

grammes under contract from BBC News and from BBC Production, the new unit that will be responsible for making virtually all BBC programmes. Raymond Snoddy, London

**TECHNOLOGY** 

#### 'Virtual' institute planned

Heriot-Watt University, in Edinburgh, Scotland, is to be the centre of a new National Microelectronics Institute funded by nine UK-based semiconductor manufacturers, it was announced yesterday. Heriot-Watt will provide the bub for a "virtual" institute, linking existing university and company facilities, which will focus initially on ensuring the availability of skilled technicians and engineers. The institute is sup-ported by Motorola, NEC, National Semiconductor, Seagate, Siemens, Fujitsu, Newport Wafer Fab, Philips and GEC-

# Wickes affair highlights audit role

Home handyman chain's problems with contracts raise wider issues profits should benefit by a are supplier discounts and how that no revenue can be booked

he accounting scandal at Wickes, a UK home handyman chain, will have sent shivers through the British retail sector. Directors, shareholders, and auditors will be asking whether their companies have also enjoyed inflated profits as a result of an accounting scam.

Wickes' problems relate to contracts with suppliers. Various inducements are often offered by suppliers to retailers to help persuade them to take their goods and promote them vigorously in their stores. All are perfectly legal. These range from "golden hellos", which could cover marketing or secure a prominent shelf position to catch customers' attention, to "over-riders" which offer e retrospective rebate to the retailer once a certain volume of sales has been reached The problem is the timespan of the contract. If, for example, a rebate relates to sales over three years, the company's

third of the total rebate during each of the three years. If it is a one-off contract, profits can be boosted by the total amount of the rebate in the next set of accounts. What appears to have hap-

pened et Wickes is that auditors and senior management saw one set of contracts which persuaded them that they could book the profit straightaway. But side letters existed between suppliers and some staff which told a different story - contracts were stretched over several years.

No individual gained directly from this practice hat the result is that the company's profits were overstated. Estimates suggest operating profits could have been overstated by at least £20m to £25m (\$31m to

The Wickes affair poses two questions. First, how common tenet of "prudence" requires

are they normally treated in the accounts? Second, how common is it for the true. nature of the contracts to be concealed from the auditors and the boards of companies? There is no doubt that a

wide range of such discounts is common in the UK retail sector. Suppliers are having a pretty rough time with the major players. They are quite keen to keep themselves on the shelves with the secondary labels," says one accountant in the retail trade. To get into stores, suppliers are extremely unlikely as long

are prepared to surrender part as the details of the contracts of their profit margin. How it are transparent. is later accounted for is not, in

"grey area" in which discounts could be either spread, or \$39m) last year - against a taken straight to profit, most reported operating profit of contracts will be clear enough to leave little room for argu- by staff or third parties. ment. The classic accounting

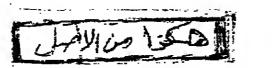
until its receipt is reasonably certain. Some companies would see that as meaning they had to have the cash. Auditors do have some room

for manoeuvre. There is a "spectrum of prudence" within which they can legitimately move. If a company is £2m short of meeting a key forecast which economists in the City of London are keenly awaiting - there will be pressure to choose a method which delivers the right numbers. But massive distortions of profit

More worrying is the possi their view, their problem.

However, while there is a suppliers and some staff is widespread in the sector. The anxiety of auditors is understandable as they have little defence against being misled

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THE NET trohic library - records. A product of organic growth, the Internet has no official central index. This, comhined with the speed and manner in which new data are constantly being added, makes finding relevant information a Herculean task.

Called Z39.50, the protocol could have important implications for anyone who scours the Internet for information. At present, users normally have to search each database separately using different commands, but the protocol would allow unified searches across multinle library catalogues and commercial databases, as well as millions of

Web pages. 239.50 is a "client/server applications protocol" that allows one com-puter system (the client) to search and retrieve information from another computer system (the server). It grew out of a 1980s project to develop a way of enabling electronic bibliographic records held at different library sites to be mutually accessible over networks.

Members of the project included the
Library of Congress and the US Research Libraries Group. Effectively, Z39.50 is an Esperanto

language that allows non-compati-ble databases to communicate. So long as both sides can "speak" Z39.50, the client can retrieve information from structured databases of different types in a consistent way. It allows aimultaneous searches of multiple databases, too. In recognition of its wider poten-tial, 239.50 has been adopted as a

US national standard. It has also been extended to allow a wider range of data types to be recognised, including files containing multimedia components such as images and sound, Z39.50, its advocates argue, is an ideal tool to tame the Internet,

Previous attempts have focused on automated search engines. These roam the network, bringing back to a central server new or updated information that users can search by inputting words or phrases. This approach is adopted by Lycos, info-Seek and Digital Equipment's AltaVista, the most ambitious such project so far, which claims to have indexed 15bn words from more than

organ engines are designed to index every word in every document, leading to a plethora of data and imprecision. "Overload and intelevancy is inevitable where irrelevancy is inevitable where you have no bibliographic control," says Robin Murray, technical director at Fretwell-Downing, a Sheffield-based library automation company. "Con-

# Surfing the index

A computer protocol developed by librarians could let users search databases, writes Richard Povnder

MURIEL'S STRENGTH IS THAT SHE BRANGS A TRAINED LIBRARIANS SENSE OF ORDER TO THE CHAOS OF THE INTERNET



sequently there is much discussion now about introducing biblio-graphic tags to Web pages." This is familiar territory for librarians weened on classification codes such as the Dewey Decimal System, and 239.50 was developed precisely to handle such bibliographic tags. "If 239.50 were implemented on search engines like AltaVista it

would be possible to search on, say, author name or subject, rather than

necessary to get widespread agreement to adopt Z39.50 as a network standard. It would also require all Web pages to be indexed with bib-liographic tags. "You could argue

this is beginning to happen in an ad hoc way," comments Denenberg.
"But if everybody ends up doing it their own way you will have chaos. There has to be a standard." At a recent workshop meeting of

W3C, the industry consortium dedi-

cated to developing common stan-dards for the evolution of the Web, a number of people expressed unhappiness with 239.50. "It was felt it was too large and complex for the Web. Part of the problem is that it is heavily focused towards traditional paper-type con-

tent," says Ben Horowitz, a product

manager at Netscape, the leading supplier of browser software. It was proposed, therefore, that advocates of 239.50 should develop a simpler version of the protocol, which is already being dubbed

#### **TECHNOLOGY**

Whatever route the wider Internet community takes, libraries are increasingly using Z39.50 to share data over the Internet. The Irish Library Council's Iris service, for instance, enables users to search the catalogues of six libraries, including Trinity College, Dublin. They can also go through UnCover, a commercial database containing bibliographic details of more than 7m articles from 17,000 English lan-

guage periodicals.

Commercial database providers are also adopting Z39.50. Silver-Platter Information distributes more than 280 professional databases, mainly in the medical and scientific area. Last year it built a Web gateway to offer Internet

access to its databases. In spite of developing its own pro-prietary data-exchange protocol, DXP, the company recently adopted 239.50. "Our goal is to build a world-wide library." says Gillian Reid-Holden, SilverPlatter's general man-ager. "For that you need interopera-bility."

SilverPlatter's "worldwide library" envisages a future in which users will be able to conduct simultaneous and seamless Internet searches, using their prefarred interface, across self-selected clus-ters of databases, regardless of who the various content providers are or the physical location of the databases. Such a vision raises questions about security and billing, suggesting that initially the proto-col will be confined to the corporate

Murray says: "Large enterprises tend to have tens or hundreds of internal databases. They probably also have access to external commercial ones. If all these databases were 239.50-compatible, then rather than searching each database ona by one, the user would be able to issue a single query and interrogate all those available to the enterprise

in one go." Francesca Green, senior analyst at the European Bank for Reconstruction and Development, welcomes this scenario. With access to four external online services and seven locally networked CD-Rom databases, she has to connect separately to each database and run a new search for each one using dif-ferent commands. "To be able to search them all at once would be

wonderful," she says.

The debata about Z39.50 is a timely reminder for the Internet community that not everything has to be built from scratch.
"Librarians have been dealing

with computerised information for almost 30 years," says Neil Smith, head of network services at the British Library. "There are lots of ways in which the skills acquired by librarians could benefit tha development of the Internet."

question of 'when' not 'if', explains Bruce Dorminey

Scientists awaiting a phone call from ET say it is just a

# Is there anybody out there?

s America watched hostile extraterrestrials wreak havoc in the new film Independence Day last week, an interdisciplinary colloquium of scien-tists converged on the Italian island of Capri to discuss their real-life search for alien intelli-

For most of the 200 participants (including three Nobel Prize winners) at the week-long 5th International Conference on Bioastronomy, the question is not whether such extraterrestrial intelligence

what means it will be discovered.

The issue has heated up since the recent announcements of Jupiter-like gaseous planets circling relatively nearby stars. San Fran-cisco State University's Geoff Marcy and Paul Butler reported yet snother new planet, about 60 per cent of Jupiter's size and in orbit around Upsilon Andromedae some 40 light years away.

Of six known extra-solar plan-ets, none is like earth. Earth-like planets could still exist in these newly discovered planetary systems, it is just that current technology is unable to detect them. No matter, extra-solar planets bolster the argument for extra-terrestrial life. Yet after surveying four of the six new systems, there are no signs of a radio signal.

Searching for intelligent nar-row-band radio beacons from beyond the solar system has been a continuing process since 1959 wben Frank Drake first directed West Virginia's Greenbank radio telescope towards Tau Ceti, a sunlike star 16 light years away. But MIT's Phil Morrison came upon the notion of looking for intelligent signals in frequencies rang-ing from 1,420 to 1,720 MHz (about the wavelength of a microwave oven). These frequencies encom-pass natural emissions of hydrogen and hydroxyl, both common in the universe.

In the last 25 years Seti (Search for Extra Terrestrial Intelligence) has been primarily conducted by four groups in the US: the California-based Project Phoenix, Harvard's Beta Project, Berkeley's Serendip IV and Ohio State Uni-versity's Big Ear search. Argensouthern all-sky search and Australia has just formed a Seti Institute that would like to continue Project Phoenix's targeted southern star survey.

Yet astrophysicists everywhere cringe at the thought of being associated with either the expand-ing UFO field or the scores of people who claim to bave been 'abducted" by wayward aliens. "Do I think we have ever been

visited?" asks Stuart Bowyer, chairman of the conference's scientific organising committee and



On the lookout for extraterrestrials

director of the Serendip IV search. "No. Do I think that we will ever be visited? No. The resources needed to produce an interstellar space vehicle are buge and then what do you do when you get there?"

If extraterrestrial intelligence were discovered, earth's perceived monopoly on intelligent life in the universe would be swept aside. The problem is not that there won't be life out there," says Dar-ren Leigh at Harvard. "The problem will be aiming telescopes at each other and starting a conversation. "We can now send interstellar telegrams out to 1,000 light years at an energy cost of about a dollar a word," be says, "Radio operators currently send cacb other signals by bouncing signals off the moon. With that same sort of equipment they could send

radiograms to Alpha Centaurl."
With a \$3m (£1.9m) annual badget, the privately funded Project Phoenix can afford to complete its 1,000-star survey of sun-like stars within 150 light years of earth. After surveying 209 stars from itstening posts in Australia, it has had 39 false positives, but no veri-fiable detection of any radio signals. From September, it will con-tinne its search using the 140m-wide Greenbank telescope and a second, much smaller, radio telescope in Georgia for signal

"I can't tell you bow many civilisations are out there," says Bowyer. "But I can tell you once we get the carrier signal then it will be one year or less until we get TV pictures from them."

Perhaps the most famous signal seen as a real message was 1977's Wowl detection at Ohio State University, so-named for the exclamation scrawled by an excited staffer on the computer printont. "We went back 100 or more times in subsequent days and never found a thing," says Bob Dixon, the project director, "But we know it came from at least as far away as the moon and did have what communication engineers would bave called sidebands which are what carries information ln an AM [medium wave] broadcast signal."

While searchers can now process 250m channels simultaneously, present search strategies and protocols still suffer from lsg time. Most Seti searches assume civilisations will be constantly communicating in a directed sig-nal beacon, which precludes the possibility of a sweeping or intermittent beacon.

It is a question of being in the right place at the right time, while avoiding ever-increasing terres-trial radio interference. This is why some Seti searchers want to place a huge radio dish on the dark side of the moon. They have targeted a 100km-wide crater near the lunar equator, the only place in the solar system with no radio interference from earth.

#### LAW

# Nationality curb ruled unlawful



COURT tor in Luxembourg, Belgium and Greece were contrary to EC treaty provisions on freedom of move-ment for workers within the Community, the European Court of Justice ruled.

In three related cases, the European Commission brought Abceedings against Luxem-bourg, Belgium and Greece over access to posts in fields as diverse as teaching, haalth, transport, post and telecommunications, and water, gas and electricity distribution. In the case of Greece, the prohibition extended to the Athens Opera

and municipal orchestras. Having sent letters of complaint and issued reasoned opinions to each of the states, the Commission brought three actions in the European Court-of Justice complaining that Luxembourg, Belgium and Greece failed to fulfil obligations under the EC treaty and

secondary legislation over free-dom of movement for workers. The treaty laid down that principle of the free movement of workers and the abolition of all discrimination based on nationality between workers of member states. It also stated that the provision in question was not to apply to employ-ment in the public service.

According to the case law of the Court of Justice, this exception only covered posts which involved direct or indirect participation in the exercise of powers conferred by public law and duties designed to safeguard the general interests of the state or of other public authorities. This pre-sumed on the part of the post-holders a special relationship of allegiance to the state and reciprocity of rights and duties which formed the foundation of the bond of nationality.

The exception did not, therecoming under the state or other organisations governed by public law, did not involve any association with tasks belonging to the public service properly so called. Having analysed the posts to which access

The general prohibitions on non-nationals occupying certain posts in the public section for the prohibitions on the prohibitions of the public sections Luxembourg and Greece to the so-called "global" approach of the Commission, by which it had excluded entire areas from the public service exception without providing more details of the posts concerned.

The Commission argued that those posts were too remote from the specific activities of the public service to be covered in general by the excep-tion. In those circumstances, it must be entitled to exclude application of the exception in all the areas raised in the proceedings, without any preliminary post-by-post examination.

The Commission also found

that the activities performed in the areas in question also existed in the private sector or could be performed in the pub-lic sector without being subject to a nationality condition.

The court did not consider

that this approach was affected by arguments put forward by Luxembourg concerning the preservation of national identity and its special demo-graphic situation. In the Belgium and Greece cases, tha court refused to taka into account changes in legislation which had not been imple-mented before the expiry of the period set by the Commission in its reasoned opinion.

Similarly, the fact that after the expiry of that period a German musician who wished to be employed by the Athens Opera had been given a contract of indefinite duration, was irrelevant

The court also rejected the request of Luxembourg that should it be found in breach of its obligations, it be granted a long period of grace in order to comply with Community obligations. The court observed that the EC treaty did not confer any power on it to grant a period of time for compliance.

Cases C-473/93 Commission v Grand Duchy of Luxembourg, C-173/94 Commission v King-dom of Belgium, C-290/94 Com-mission v Fellenic Republic, ECJ (FC) 2 July 1996.

BRICK COURT CHAMBERS, BRUSSELS

# Change of style at west managers named head of Swiss Re

Walter Kielholz, who succeeds Lukas Mühlemann as chief executive of Swiss Re after the latter's promotion , last week to head the restructured Credit Suisse Group, is a marked contrast to his fast-moving predecessor. An insurance industry veteran -

Mühlemann is a former McKinsey consultant - Kielholz joined Swiss Re in 1989 as head of its Japan and the Far East sector. He had previously worked at General Re, the US-based reinsurer, and Credit Suisse, where he was responsible for customer relations with large insurance groups.

Within the organisation, the 45year-old Kielholz (a year younger than Mühlemann) is regarded as clever and creative. Most recently he has had responsibility for "alternative risk transfer markets". This has included experimenting with complex financial instruments, and products which combine investment elements with risk transfer to find new ways of protecting insurers' balance sheets.

Swiss Re signalled last week that it expected little change in strategy under Kielholz, pointing out that he had worked closely with Mühlemann before the changes. Mühlemann remains on the Swiss Re board and will become deputy chairman. Ralph Atkins



Thomson Corporation has moved quickly to put its stamp on West Publishing, the US legal publisher recently acquired by the Canadian-

controlled publishing and travel group. Thomson has merged West with its own extensive legal interests, creating West Information Publishing. Andrew Mills, chief executive of Thomson's financial and professional publishing group, will also be West's chief executive. Brian Hall, formerly chief executive of Thomson's legal publishing division, has been named West's president. Hall joined Thomson last year after a decade as president of Shepard's, a Colorado-based legal publisher owned by McGraw-Hill. He will move to West'a head

office in Eagan, Minnesota. Another Thomson executive, Den-nis Beckingham (pictured above), has taken over as chief financial officer. Beckingham previously oversaw the finances of Thomson's financial and professional publishing group.

West'a former chairman and presi-

dent, father and son Dwight and Vance Opperman, have been named chairman emeritus and chairman respectively of the new division. The

Oppermans were among 200 employee-shareholders bought out by Thom-son in the US\$3.4bn deal.

INTERNATIONAL PEOPLE

#### **NYSE hires Belgian**

Bernard Simon

The New York Stock Exchange's push to attract non-US companies to its lists should get a lift with the arrival of Georges Ugeux on October 1. He will be group executive vice presi-dent, international, and become the fourth member of the office of the

chief executive. Tha new post underlines the exchange's ambitious global plans. Richard Grasso, chairman, is fond of remarking that if only the top third of the 2,000 non-US companies qualified to list on the NYSE did so, it would double the exchange's market capitalisation from its current \$6,500bn.

Around 260 non-US companies have their shares listed on the Big Board, through American depositary receipts which are traded in dollars. However, the exchange has quietly dropped plans to begin trading in non-US com-panies shares in their home curren-cies. The intention had been to start a pilot scheme this autumn using up tha shares of up to 10 large interna-tional companies. But the plan has been put off, with no firm date set for a start.

Ugenz is a Belgian national with extensive banking and capital markets experience in Europe, having worked for Société Générale de Banque, Morgan Stanley's London office, and Kidder Peabody in Europe. He is currently president of the European investment Fund, the agency which backs small and medium-sized European enterprises. He also chairs Belgium's privatisation agency.

#### Changes at Macquarie

Macquarie Bank, the only major Australian-owned investment bank, which is due to make its stock market debut in a matter of weeks, has named two joint deputy managing directors, under Allan Moss, managing director. They are John Caldon, who beads the bank's corporate finance division, and Richard Sheppard, who runs the corporate banking and corporate affairs group. Both have been with the bank for over a decade: Caldon joined 11 years ago. when Macquarie was still the old Hill Samuel Anstralia operation, while Sheppard has worked for the group since 1975. Nikki Tait

Keil quits Republic Jeffrey Keil, one of the closest associates of Edmond Safra, the secretive Swiss-based financier, is resigning as president of Republic New York Corporation. He is setting up an invest-

ment partnership which will invest in the financial sector of Israel. Safra, who controls a network of banks around the world, owns 27 per cent of Republic, a US bank holding company with assets of \$41.5bn. Keil, 53, joined Republic 25 years ago, and has been heavily involved in helping Safra build Republic into one of the top 20 US bank holding companies Keil is leaving the group at the end of September and is setting up Keil investment Partners, with the help of

Lazard Freres. He will remain on the Republic board and Safra has indicated that if circumstances permit he would hope to invest in Kell's new partnership. But despite the amicable parting of the ways, Keil's departure has caused some surprise on Wall Street. He is one of the youngest members of the board and seemed a natural successor to Walter Weiner, 65, Republic's chairman and chief executive. Republic has

yet to name Keil's successor. There have been suggestions that Keil's departure may have been prompted by Republic'a conservative growth strategy. Although Keil's skills are in investment banking. Republic's strength lies in retail and private banking on the back of its strong balance sheet. Kell says that he is leaving the safest bank in the world. "That is what Edmond wanted Republic to be, and I have strived to contribute to his vision." William Hall

#### ON THE MOVE

■ Marcia De Wachter succeeds Jean Poullet as\_ secretary-general of the BELGIAN NATIONAL BANK. De Wachter worked in the office of former prime minister Wilfried Marbens from 1986-88. She joined the central bank as an adviser in 1968. Orsa Khunawat, 59, has become the first woman to head the MASS COMMUNICATIONS ORGANISATION OF THAILAND, which operates the Thai News Agency and radio and television channels. She succeeds Saengchai Sunthornwat, who was murdered in April. ■ Richard Gordon Atkinson rises from vice president consumer marketing to president of TIME Inc. Atlantic. He succeeds Robert Crozier, who has left by mutual agreement with the board\_ ■ Bernd Menzinger, 59, becomes the first non-railwayman to chair INTERCONTAINER INTERFRIGO (ICF) which acts on behalf of 28 European national railways. Menzinger,

former chief executive of Danzas, the freight and

forwarding group, replaces Alain Poinssot. Wolfgang Gritz is stepping down as ICP's joint managing director, leaving Soren Rasmussen in sole charge of the group.

Rod Chadwick, the incoming managing director of PACIFIC DUNLOP, has named four executive general managers. Ian Veal (strategic direction); Philip Gay (finance); Paul Dainty (on secondment from Melbourne Business School organisation development and learning); and Howard McDonald (Pacific Brands, with responsibility for a strategic review of the \$1.3bn consumer products group).

Martyn Lowry has been appointed director of European public affairs at EDS, the information technology services provider. He previously held a similar role at Apple Computer Europe.

Thomas Nysten, 57, and
Antti Sojakka, 46, join the
operative management board
of METSA-SERLA, the Finnish forestry group, with respective responsibility for marketing and sales, and development of the packaging business. Christian van Niftrik, senior executive vice-president for the departure of Leon converting pusiness, retires on August 1, when Juhani

Saarela, 41, becomes head of the tissue division. Alan McGilvray succeeds Herbert Brenneiser as managing director of BAYER (India), part of the chemical and pharmaceutical group.

Gil Harris has been
appointed vice president and general auditor of LUCENT TECHNOLOGIES, ons of the units formed on the break-up of AT&T. He is currently a partner of Coopers & Lybrand.

Barbara Mason rises to senior vice-president, retail marketing at Canada's SCOTIABANK. She was most recently vice-president retail marketing.

Edmund Belak becomes

head of HILL AND KNOWLTON'S US financial to become chief financial communications practice. Jeff Zilka becomes deputy director. ■ Arthur Lipper, appointed chairman of BAT International relations for US WEST. COMMUNICATIONS. on April 20, resigned on June 13. BAT says it is seeking a qualified motor industry executive to replace him. manager for space flight programmes at MCDONNELL DOUGLAS. New Zealand brewer LION NATHAN has appointed Tony Van Kralingen, previously director of operations of South African Breweries, as head of its Australian operations after

Percy Allan, 49, finance director of BORAL, the Australian energy and building materials group, is leaving after two years in the job. He is being replaced by Brian Hill, formerly with biscuit maker Arnotts. ■ Kevin Dougherty becomes

vice-president, group insurance for Canada at SUN LIFE ASSURANCE COMPANY OF CANADA. Marcel Gingras becomes vice president, individual insurance for Canada and Dikran Ohannessian, vice-president, business practices. Roger Hay, chief financial officer of Titan Corporation, based in California, is leaving officer for PINNACLE MICRO. ■ Mike Fernandez, 39, formerly with Eastman Kodak, bas become vice-president of public ■ Rodney Linford succeeds George Kersels as general

■ Albert Luke becomes staff vice-president for strategic development at DRESSER INDUSTRIES, the Dallas-based energy resources group. He was previously vice-president, alliance operations at M.W. Keilogg, Dresser's engineering and construction subsidiary. ■ Diane Cairus becomes senior vice-president, production et UNIVERSAL PICTURES. She joins from International Creative Management. ■ David Brubaker becomes director of south-east Asia manufacturing at EASTMAN KODAK.

Joy Thoma has been named senior vice-president of planning for the Asia Pacific region at MASTERCARD INTERNATIONAL. ■ Dieter Wissler is to head Novartis's German unit, following the merger between Ciba Gelgy and Sandoz. Khalid Ismail is to chair the JARDINE MATHESON Group in Malaysia, with a seat on the Asia Pacific regional board of Jardine Matheson Holdings. Ismail recently retired as secretary general of the Malaysian civil service. ■ Papl Speddon becomes president and chief executive of HJ HEINZ of Canada and chief executive of Heinz

Bakery Products. He replaces

John Crawshaw, who will head

Heinz's Pacific Rim businesses.

■ Lee Suan Yew has resigned

from the board of HOTEL PROPERTIES in Singapore.

■ Chay Kwong Soon, co-founder, president and chief operating officer of CREATIVE TECHNOLOGY, the computer sound board maker based in Singapore, has resigned. He will remain a director. ■ Richard Cavill, deputy chairman of SOUTHCORP HOLDINGS - Vintner and industrial group, has retired. He will be replaced by Helen

Lynch.

William Harper, chief
financial officer of NATIONAL STEEL Corp of the US, has resigned.

■ Bruce Nakao has resigned as chief financial officer of Adobe Systems, to take the same role at PUMA TECHNOLOGY. Charles Geschke, president of Adobe, will take temporarily take over Nakao's responsibilities.

#### **International** appointments

Please fax announcements of new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

# AREREGENIA PLAYING RUSSIAN ROULETE?



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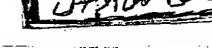


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# Closer look at Bacon

William Packer visits an important retrospective exhibition in Paris

though by the apparent vigour of his work to the last, he hardly seemed so old. Yet he had been a central, if singular figure in British art for almost 50 years, and already a marked and coming man for some time before that.

Such people are well able to sus-tain their own myth, and Bacon evi-dently relished and cultivated that singularity. He was clearly the most singularity. He was clearly the most solution and internationally successful British painter in his lifetime but, more than that, he was defiantiy the odd man out - a figura-tive painter, symbolist, surrealist and expressionist in a world of cooler abstraction and conceptualism, and living a life to match.

But as time goes on, so we begin to see his occurre from first to last, despite its contradictions and shifts of emphasis, as all of a piece. He may have destroyed most of his early work and stopped painting for a while: he may seem consciously to have set his mature career and repnation on the still extraordinary triptych of 1944, "Three Figures at the Base of a Crucifizion", by which he marked the moment he began to paint again and first came before a wider public. Even so, enough of the earlier work survives and, piece by piece, comes back into the light,

to qualify that self-presentation.

Artists have their own position, which is not necessarily ours. They are not always the best judges of their own work, standing so close to it, perhaps, as to see the trees but not the wood. The true artist will always do more than he knows, let alone intends, and Bacon himself insisted upon the primary impor-tance to the painter of chance and intuition and pure luck. "That is why real painting is a mysterious and continuous struggle with

chance", he wrote in 1953. Three years ago at Venice the critic David Sylvester effectively reintegrated Bacon's work after 10% with that of the previous 20 years or so, testing the view that

rated - almost intoxicated - by the dancing one has seen. With so

elty: DNB has long treasured a seri-

In the decade since the choreogra-

pher's death, his creativity can be

seen ever more clearly as a leaven-

ing, revivifying force, telling of the

primacy of classic dance, and

reminding andiences and dancers

alike that his ballets bless and

brace and illuminate. What delights

me, who have been watching them

over 50 years, is their continuing

power to astonish. Craftsmanship is transcendent - they are beautifully

made, products of a great cabinet-

maker - and they reveal, in loving

c'ind idiomatic performance, an ever-

fresh mastery. (Agon, nearly 40

years old, remains one of the cen-

tral masterworks in the arts of our

century, and still seems adventur-

ous - far more daring than the neu-

ous, 26-work-Balanchine repertory.

ow satisfying, and how rare nowadays, to leave

a theatre on two succes-

sive evenings, exhila-

rancis Bacon died four Bacon's greatness rests on that ear years ago at the age of 82, lier work. Now in an ampler seleclier work. Now in an ampler selection for the Centre Pompidou, he throws that question open again, and makes if anything, and perhaps unconsciously, the further point that Bacon was never at all the eccentric and isolated figure of received opinion.

Which brings us back to the

young Bacon of the 1930s and his work of the time. Few as the examples are, they are more prominent here than ever before. Here is the Bacon of the avant-garde circles of Moore, Sutherland, Pasmore and de Maistre, the Bacon who turned down Roland Penrose's invitation to show in the Surrealist Exhibition of 1936. And here is the small "Crucifixion" of 1933, that Herbert Read reproduced alongside a surreal and grotesque Picasso "Baigneuse" in his book, Art Now.

Here then, in the common stock of 1930s surrealism, lie the origins of that "Crucifizion" triptych of 1944, and all the disembodied figures, gaping mouths, bared teeth, screaming Popes, that were so soon to follow. But there are also two quieter, more ambiguous paintings of about 1936, an "Interior of a Room" and "Figures in a Garden" that are no less significant. For already they describe the shallow, angular pictorial space that was to be Bacon's device of a lifetime – the open space-frame, the enclosing screen. And with as yet no idiosyncratic horrors to register, they sit happily at the centre of cosmopoli-tan modernism, looking to Matisse and Braque on the one hand, and to incipient British neo-romanticism on the other, to Sutherland - with whom a creative association lasted throughout the 1940s - Ceri Richards and Eileen Ager.

Thus primed, the comparisons come thick and fast, and not neces-sarily one way. The crouching and sitting figures of the later 1940s summon up Magritte; a grey figure child (IOEX) suggests Giacowatti a study (1957) suggests Giacometti; a mountain landscape (1956), David Bomberg, And such current lumi-



Dark humanism: 'Portrait of George Dyer Riding a Bicycle', 1966, by Francis Bacon

naries as Penke, Baselitz, Clemente and Salle are all prefigured in the images of the 1950s. To say as much takes not a whit away from Bacon's interest, originality or importance as an artist, but only from that supposed isolation.

Becon remains unquestionably a remarkable and major artist, and the better for the loss of his splendid isolation. His faults we can live with - his feeble drawing more than made up for by the often exquisite delicacy and subtlety of his touch as a painter. The later works remain for me e problem, more for the over-blown scale on which they are too often set, which exposes the drawing and over-extends the paint upon the surface, than for their actual imagery. The sets of small portrait studies, close

and intense, early or late, are as strong as ever. And the heavy cloud of his bleak, dark, despairing bumanism hangs over it all.

Francis Bacon Retrospective: Centre Georges Pompidou, Paris, until October 14, then on to the Hans der Kunst, Munich: exhibition organised by the Centre Pompidou in col-

# Weird stuff – but first rate

Ian Shuttleworth is tangentially challenged by Sam Shepard dramas

or three weeks, Battersea Arts Centre has become a temple to America's greatest living exponent of oblique drama, Sam Shepard. His face (or at any rate the left half of it) gazes down from walls; the cafe and bar play a selection of Shepardprogrammed music ranging from Eric Dolphy to his former New York cohort Patti Smith and Ry Cooder's soundtrack to Paris, Texas (coscripted by Shepard); and a number of late night shows are presented in addition to the three main evening productions.

The main performance base hosts States of Shock, premiered off Broadway in 1991 and an excellent introduction to Shepardian arcana. Into an ordinary diner come a traumatised wheelchair-ridden young man and a colonel in pompously over-decorated dress uniform. Their meal is interspersed with, and finally overridden by, the colonel's desire to force young Stubbs (a remarkable performance by Jason Done) to relive the battle in which the colonel's son was killed.

As the 70-minute show progses, fragments of truth emerge, but Shepard leaves it to the audi-ence to assemble these into a cubist picture of a family in denial. At the next table, the difficulties of Mr and Mrs Middle-America draw indirect parallels with the tensions and complexities of the nation as a whole. Behind a gauze at the rear of the stage, a couple of percussionists are let loose periodically, though not often enough to create the oppressive sense of distant artillery fire which director Michael Kingsbury intends. This is weird stuff, to be sure, but first-rate weird stuff.

Studio Two'e 85-minute show, Suicide in B Flat (1976), is if anything even more tangential. Director Andrea Brooks edroitly follows Shepard's advice not to try to "solve the play". That task is left to a couple of investigators (Ian Barnes and the fine Shaun Prendergast), and it is one et which they inevitably fail. Is composer Niles really dead? If so, why and how? If not, whose corpse, its face blown off, have they discovered in his apartment? In either case, what kind of limbo are Niles and his childlike companion Paulette inhabiting, that they can half-kill the investigators at close range without being noticed?

Don't ask me... or Shepard. What matters are the tensions and contrasts between the men in suits a couple of jazzers who worked with Niles and the ethereal duo - the interplay of mentalities, reason versus instincts and several conflicting instincts at that. It is as if the only way to approach profundity is through a partial and hallucinatory modern fable; it is also the closest have seen to conveying the tangled spirit of modern jazz in drama.

A Lic of the Mind (1985) in Studio One is the only two-act play. Its narrative is more linear and bears a closer relationship to reality, but within this framework sit two families in which each member has his or her own quirks and dysfunctions. After Jake has left his wife Both for dead on a highway, he retreats into psychosis in his own home whilst she slowly recovers from severe brain damage in the warped bosom of her family. Melissa Chalsma is terrific as Beth, her elliptical outbursts serving as the principal vehicle for Shepard's authorial comments on the buman mind and beart. The patterning of the play is a little too deliberate, with motifs being picked up from scene to alternating-family scene and great care taken to display the central lie in esch character's mind, be it a concept of family, love or morality.

For this reason, although Toby Reisz's production (with its largely American cast) is every hit as tight and intelligent as the other two, A Lie of the Mind is somehow less satisfying; the meaning is delivered on a platter rather than our having to track it down through snows of bewilderment. Shepard is a writer for whom the word "difficult" is a term of epproval, and the work on show at Battersea ably demonstrates that clarity and directness are not at all the same thing.

All three shows at BAC, London

#### Ballet in Amsterdam/Clement Crisp

#### In great rapport with Balanchine

much of today's programming we make excuses, voice hopes, and sad stories of the death of ballet. Not so, I found; as last week ended in Amsterdam and the Dutch sythe and his devotees).

The Dutch ensemble looks fine in National Ballet began a small but significant festival of Balanchine's Balanchine, and Balanchine looks work in the splendid Muziektheater. fine in their performance. It is a tribute to Wayne Eagling, DNB's There are nine pieces on view, artistic director, that the dancers have so assured a manner for this nicely balanced in three programmes. Their presence is no nov-

> a clearer edge to their style. It is also a tribute to Karen von Aroldingen, grand Balanchine dancer who has coached the present season. It is no less a tribute to the DNB orchestra, under Paul Connelly and Andrew Mogrelia, that the musical floor of the dance was so polished. so springy. The dance grew, as it must with Balanchine, from an alert response between stage and pit. Not least of the rewards in these evenings was that the stage looked so alive, its space so vital. The design for six ballets amounted to four chandeliers for Theme and Variations. Costuming, except for the same ballet's stylish tutus and jerkins, was of the simplest, set

repertory: I sense that he has given

rotic kick-boxing of William For- tive freight to maximum artistic effect. How unlike the Brobdignagian luggage of troupes and repertories nearer bome, burdened with the vulgar disguises and knickknackery that, even so, do not obscure the shoddiness and indeci-

> alanchine's choreographies, stripped to their essence, spoke during these two evenings with e sublime honesty. They are like missionaries, for Balanchine's work now feeds companies round the world, and his art seems almost that of a diaspora - scattered in this instance from the former New Amsterdam to old Amsterdam

In the first evening, with Serenade, Agon, Symphony in Three Movements, I renewed acquaintance with a company much livelier than when I last saw it. A strong pulse to the dance, the right sense of dynamism - no soft edges, save properly so in Serenade - and something both quick-footed and joyous in the

Stravinsky symphony. In Nathalie Caris, the central woman in *Agon*, a dancer of potent temperament who shaped the pas de deux with Boris de Leeuw impeccably; in Enrichetta Cavallotti, a dancer whose every step in the symphony was pungent,

with Theme and Variations, Balanchine's tribute to the old Petersburg's ballets. With a Petersburg artist, Larissa Lezhnina, at its heart, the resonances of the piece were clear. Lezhnina was a young Kirov star whose Aurora was a golden creation. She has been with DNB for the past few years, and has grown into a radiant, assured ballerina. Her serene style, the way in which the dance flowers through the torso and is crowned by the arms, is ideally seen here: the choreography glows.

In Balanchine's late and teasing

setting of Hindemith's Kammermu sik No. 2 - a chorus of eight boys surround two darting, dazzling women in unguessable but thrilling games - and in the staggering Violin Concerto, the Dutch ensemble and its admirable principals gave disciplined, vital accounts, making grand sense of masterworks. They had been nourished by the dance. And so, gratefully, had we.

The Dutch National Ballet Balanchine season continues at Amsterdam's Muziektheater until July 13.

# The Doctor of Myddfai

David Murray reviews Peter Maxwell Davies' new opera

ir Peter Maxwell Davies has but was fated to return there if and orchestra is making busy patterns written a new work for the when her mortal bushand should of its own which are only obscurely Doctor of Myddfei, which he suggests may be his last opera. For once be has chosen another person to be his librettist - David Pountney, a renowned opera-producer as well as a skilful translator, together they hit upon e suitable Welsh legend, and devised e modern parable to enclose it. The mysterious story employs a large cast, and contrives to include some hymns in Welsh for the sake of the WNO's famous cho-

The Cardiff premiere last Friday is to be followed by two performances in Llandudno (this Wednesday and Saturday), and in the antumn the WNO will tour it through its usual ports of call. The Cardiff andience faced up to it rather well: puzzled, reasonably enough, at the end of the first act, but heartened by the overt drama of the second - and the opera is quite

Some 800 years ago, it seems, the physicians of the little village of Myddfai were famous for their herbal lore. They acquired it, so the legend goes, with the help of a beautiful woman who rose from a lake,

course he did. As the opera begins, the latest Doctor of Myddfai is recounting the story to his daughter; at the end she has stepped into

he time is the near future.

when Wales - already denied its name - is a fringe outpost of a bureaucratic European empire. A plague is raging, though officialdom denies It: anyone who is struck in the rain develops a horrible, spreading bruise which invariably proves The Doctor tries to persuade the

lofty Ruler to acknowledge it, and succeeds at last only by striking him, with the usual result. While the Ruler is brought face to face with his own mortality, the Doctor becomes carried away by his own aura as a great healer. You may conjecture about the rest.

Maxwell Davies' score is pithy and striking. His penchant for hooting brass and a great variety of percussion is risky for the words, particularly in the first act, and there is sometimes a sense that the

act settles micely into strongly contrasted numbers and scenas, and builds up a considerable head of

There is a taut, upstanding per-formance by Paul Whelan as the Doctor, always superbly audible over the churning orchestra, and a noble, disillusioned Ruler from Gwynne Howell. Why, exactly, the Doctor should appear as a woman to deliver the coup de grace remains a mystery, but Whelan carries it off

Anyway, I always suspected that the stately, long-legged women who haunt Pountney's productions were men in drag, so the twist came as no real surprise. His production here is incisive as usual in Su Huntley and Donna Muir's bold, fascinating designs. Lisa Tyrrell scores a bright-voiced success as the daughter, all the smaller parts are energetically taken, the chorus swings fervently into its hymns, and Richard Armstrong bas trained the orchestra to a confident pitch.

The action leaves tantalising loose ends, the better to provoke our imaginations.



#### ■ AMSTERDAM

DANCE Het Muziektheate Tel: 31-20-5518117

mildred to

and broking

A THE RESIDENCE

 Het Nationale Ballet: perform Balanchine's Serenade to music by Tcheikovsky, Agon to music by Stravinsky and Symphony in Three Movements to music by Stravinsky. Part of the Balanchine Summer Festival; 8.15pm; Jul 9, 12

Rijicamuseum Tel: 31-20-6732121

 South Wing: The wing reopens after three years of renovation - 18th and 19th century paintings, Asian art, costumes and textiles in 16 new rooms; to Sep 22

#### AVIGNON

**FESTIVAL** Fastival d'Avignon Tel: 33-90 82 67 08

Festival d'Avignon: theatre

festival established by Jean Vilar in 1947 in order to provide a context for theatre-going different fromthat of the Paris boulevard theatres. The festival is always held in July, when commercial and state theatres in France are closed.

against a cyclorama. The company could tour with minimum decora-

With its increasing popularity, it has opened out gradually to embrace other genres such as dance and This year the 50th edition is held.

This year's theatre highlights include Armé Césaire's La Tragédie du Roi Christophe, directed by Jacques Nichet, and La Nuit du Théâtre, which will be broadcasted live on French television (Jul 28). Other highlights include performances by Bill T. Jones and the Amie Zane Dance Company, featuring choreographies by Bill T. Jones, the celebration of the 20th anniversary of the Centre Acanthes, with the co-operation of Pierre Boulez, Henri Dutilleux, György Ligeti and lannis Xenakis, and the exhibition Deux Palais pour Rodin in the Palais des Papes and the Petit. lais, devoted to Rodin; from Jul 9 to Aug 3 .

#### ■ BERLIN

EXHIBITION Berlinische Galerie Martin-Gropius-Bau Tel: 49-30-254860

 Anne Ratkowski: Eine vergessene Künstlerin der Novembergruppe: exhibition devoted to the work of the Gorman nainter Anna Ratkowski, a member of the Novembergruppe, a movement of Expressionist artists formed in Berlin in 1918. The display

includes still lifes and portraits; to

#### BOSTON

EXHIBITION Museum of Fine Arts Tel: 1-617-267-9300

 Gauguin and the School of Pont-Aven: this exhibition features 80 oil paintings, 30 works on paper and four sculptures, including works by Gauguin, Bemard and 18 other artists associated with Gauguin's presence in Britanny; to Sep 15

#### **■ BRUSSELS**

EXHIBITION Musée Communal d'Ixelles Tel: 32-2-5119084

 Groeninge Collection: exhibition of works from this collection of contemporary art, assembled over the past 10 years by a group of Belgian collectors. The collection Includes works by Richter, Panamarenko, Fabre, Frère, Cartier Oursler, Keith Haring, Allan MacCollum, Mike Kelley, Soi LeWitt and others; to Jul 28

#### **■ EDINBURGH**

EXHIBITION Scottish National Gallery of Modern Art Tel: 44-131-5568921

 Alberto Giacometti 1901–1966: the first significant exhibition of Glacometti's work in Britain since

the retrospective held at the Tate Gallery in 1965. The exhibition comprises some 80 sculptures. 30 paintings and a selection of drawings. These include sketches and paintings made by Giacometti in his youth, surrealist sculptures of the early 1930s and the celebrated series of tall standing figures begun immediately after the second world war; to Sep 22

#### LONDON

EXHIBITION British Museum Tel: 44-171-6361555

 Vases and Volcanoes: Sir William Hamilton and his collection: exhibition focusing on the 18th-century antiquary, connoisseur and natural historian; to July 14

#### MUSICAL Ahmenson Theater

Tel: 1-213-972-0700

 Carousel: by Rodgers and Hammerstein. Directed by Nicholas Hytner and performed by The Royal National Theatre; Tue - Fri 8pm, Sat 2pm & 8pm, Sun 2pm; from Jul 10 to Aug 25 (not Mon)

#### ■ NEW YORK

EXHIBITION Whitney Museum of American Art Tel; 1-212-570-3600

 Shigeko Kubota: exhibition featuring a new installation of metal, mirror, video, and motorized sculptures, created between 1992 and 1996 by Shigeko Kubota. The

575 -On - FOUND 20

sulptures - some first shown at the 1993 Venice Biennale - include "Bird il", "Windflower", "Video Flower", Windmili II", and "Video Tree"; to Aug 25

#### PARIS

EXHIBITION Centre Georges Pompidou Tel: 33-1-44 78 12 33

 L'informe: exhibition focusing on the history of Modernism. The display includes works by Pollock, Duchamp, Fontana, Smithson, Warhol, Hesse, Dubuffet, Rauschanberg and others; to Aug 26

#### ■ SAN FRANCISCO

CONCERT Louise M. Davies Symphony Hall Tel: 1-415-864-6000

 Hooray for Hollywood!: a celebration of Hollywood film scores, featuring the San Francisco Symphony with conductor Emit de Cou, Broadway and film actor Joel Grey, and dancers Evelyn Cisneros and Stephen Legate. Opening night of tha San Francisco Symphony Pops; 8pm; Jul 12

#### SYDNEY

**OPERA** Drama Theatre, Opera Theatre, Playhouse Tel: 61-2-250-7127

● Lucretia Borgia: by Donizetti. Conducted by Patrick Summers and

performed by the Australian Opera. Soloists include Neily Miricioiu, Suzanne Johnston, Gregory Tomlinson and John Wegner; 7.30pm; Jul 9, 13

#### VIENNA

Graphische Sammlung Albertina Tel: 43-1-534830

 Von Schiele bis Wotruba. Arbeiten auf Papler 1908 bis 1938: exhibition of approximately 150 works on paper, created by 58 Austrian artists between 1908 and 1938. Artists represented include Gustav Klimt, Egon Schlele, Oskar Kokoschka, Alfred Kubin, Max Oppenhelmer, Herbert Boeckl, Albert Paris Gütersloh, Max Weiler and Fritz Wotruba; to Aug 18

#### ■ WASHINGTON

EXHIBITION National Portrait Gallery Tel: 1-202-357-1915

1846: Portrait of the Nation: celebrating the 150th anniversary of the founding of the Smithsonian institution, the exhibition describes, In illustrations, manuscripts, clothing and sculpture, the political, cultural and social character of America in 1846 by focusing on leading figures of the time; to Aug 18

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FT Business Moming

European Money Wheel

Nonstop live coverage until 15.00 of European business and the financial markets

Financial Times Business

CNBC:

08.30 Sauawk Box

European Money Wheel

Financial Times Business Tonight

is a one-off "windfall levy" - a

retrospective tax to you or me

- on the "excess profits" of the privatised utilities to fund

iob programmes for long-term

The bad idea is the mini

mum wage. It is a bad idea

because it is bound to hurt

employment without benefit

ing the poor. As the Institute

the largest gains accrue to bouseholds in the middle of the income distribution,

because most of those who

receive low wages are second-ary earners, either in a couple

or children living with their parents. As for the effect on

employment, that would

depend on the level of tha

minimum and the extent to which higher-paid workers

would restore their differen-

Evidently there exists

minimum wage so low that it would make no difference,

good or bad. It would have to

be very low indeed. A mini

mum wage of £3.35 an bour

for example, would directly

affect 32 per cent of part-time women and 40 per cent o

part-time men, though only 16

per cent of full-time women

and 8 per cent of full-time

men. A minimum wage o

£4.15 an hour (60 per cent o

the median male wage) would

affect 55 per cent of part-time women and 54 per cent of

part-time men. Could the

unspoken purpose of these

proposals he to curtail

part-time work, most of which

is done by women, in order to

hoost full-time employment

Will Labour raise taxes:

Probably yes. Will it increase the underlying rate of growth

and lower the underlying rate

of unemployment? Probably not. Could the economy per-

form in line with its long-run

trend rate of growth under

Labour? Yes. But what Mi

Blair must hope is that there

is enough slack in the econ

omy to give a good period of above-trend growth. It just

might be there. It would be

opportunities for men?

tials. Both are unknown.

Fiscal Studies has noted

and youth unemployment.

Martin Wolf

# The fiscal trap for Labour

The party has dropped most of its seriously wrong solutions to the economy's problems but its new ideas are unlikely to lead to improved growth

have solved the problem of the Mr Boris Yeltsin's success shows that anything is possipublic finances in his Budget of November 1993 suggests ble in politics, even resurrection of the electorally dead. But the overwhelming odds are that Mr John Major will not manage to return to life in a similar fashion. So how might the economy fare under Mr Tony Blair's New Labour? been all downhill. Would he avoid mising taxes? Would he increase the economy's long-term rate of growth? Would he lower the woder-

The answer to these questions has to be no. Lalour may not bave the right answers, but it has at least dropped most of the seriously wrong ones. The result is a split personality. "New Labour, new Life for Britain", the proto-manifesto published last week, may condemn Tory misrule, but its authors also accepts large chunks of Conservative thinking. On macroeconomic policy, for example, the document claims that "we will set strict rules on spendmg and borrowing". Moreover, "the priority must be stable, low-inflation conditions for

long-term growth". It sounds most attractive. Unfortunately, Mr Gordon Brown, Labour's putative chancellor of the exchequer, will find himself facing fiscal difficulties from the very start. Considerable effort will he growth of fiscal deficits and debt, as today's revised forecast from the Treasury should make clear to auyone wbo

reads between the lines. Mr Bill Martin, chief economist of UBS and ever a thought-provoking maverick, has argued that the public sector borrowing requirement, far from dwindling away as Mr Kenneth Clarke, the chancellor, forecast last November, could remain at an unaccept ably high 4 per cent to 5 per cent of gross domestic product for the rest of the decade. This is not implausible. All Mr Martin does is assume that public spending and GDP grow in line with historic trends. What has already happened

since Mr Clarke claimed to

this gloomy view could well be right. As the chart suggests, the rapid economic growth of 1994 improved the public finances by more than had heen expected in November 1993. Since then things bave

The outcome for the PSBR in 1995-96, at 41: per cent of GDP, must be compared with the 4 per cent forecast last November and the 3 per cent forecast in November 1994, in its latest forecasts, Goldman Sachs suggests the 1996-97 outcome will be close to 4 per cent of GDP, up from the 1% per cent forecast in November 1994, while the outcome for 1997-98 will be about 31, per cent of GDP, up from the % per cent forecast in 1994.

What has gone wrong? Part of the answer is a sbortfall in receipts from taxatioo. Another has been disappointing economic growth. Last November's forecast of 3 per cent growth in 1996 is likely to be half a percentage point too high and it follows an even larger exaggeration of 1995 growth in the forecast of November 1994. There are also the tax cuts of last November, which will reduce revenues by

more than half a percentage economic growth will be only point of GDP in 1997-98. For Labour, the problem is worse than it appears to be, partly because there are likely to be yet more tax cuts in November, but principally hecause the government's forecasts rest on implausibly tight control over public

speoding, in November 1995, for example, Mr Clarke forecast that government spending would, to all intents and purposes, not rise at all between 1995-96 and 1998-99. It stretches credulity to accept that even the Tories would achieve this. It seems inconceivable that Labour will - or would want to. The fiscal cupboard is bare.

Under plausible assumptions, as Mr Martin argues, the ratio of the fiscal deficit to GDP may have to be cut by 2 percentage points, amounting to some \$16bn a year - the equivalent of 8p in the pound on the basic rate of income tax. And even this would finance real growth of public spending after 1997-98 only in line with its long-term trend of some 1%

per cent s year.
The attractive ways out of the fiscal trap are, of course, faster growth and lower unemployment. Gloomy forecasts, such as Mr Martin's, assume

Brown going to make the dif-ference? Partnership between private enterprise and the gov-Lahour's huzzwords. This is a tricky idea. Partnership can too easily mean public funding of unprofitable activities. Improving skills is the other: "We will not succeed unless our people are

per cent a year from next

year, in line with the long-run

trend since 1979. Could things

be better? Labour's answer is

a "medium-term growth strat-

egy" which "will encourage

long-term investment and

increase sustainable growth".

Will New Labour's new ideas lead to brighter growth? There

are two big reasons and plenty

The big reasons are, first,

that raising an advanced country's rate of economic

growth seems to be hard. Sec-

ond, so many different policies have already been tried. Yet

the UK's rate of growth has

been amazingly stable: the

economy has grown at an

average compound rate of

close to 2 per cent since 1820; since 1900, the rate of growth

has been the same; since 1945,

it has been a little faster, at 2.2

per cent; but it has been back

to 2 per cent since 1975. As

Henry Ford would have said,

the British can have any rate

of growth they want, so long

Is a Treasury under Mr

as it's 2 per cent.

of little ones for doubt.

equipped to do so. That means skills and education." This phrase is followed by a commitment to guaranteeing nursery education for all threeand four-year-olds. By the time these children are revolutionising the British economy, Messrs Blair and Brown will be pensioners.

Add the various notions together and they still do not amount to much. Handled carelessly, they would make things worse. Handled carefully, they just might make them a little hetter.

In one respect, they seem certain to make things worse. That exception is unemployment. Here there is a gimmick

Personal View · Frank Vogl

# Customers come last in global air links

Airline alliances work against the interests of passengers – and of their safety

I had booked my flight from Brnssels to Boston Delta Airlines and my ticket said Delta as well. But as I walked down the boarding

ramp, I knew something was wrong: the stewardesses were not in Delta uniform. The logo everywbere was that of Sabena, tha Belgian airlina that is in an alliance with Delta, Austrian Airlines and It was an old European Airbus, not a spanking new Boeing 777 of the kind United Airlines used to fly me to Europe. The legroom in business class

cost more than \$3,000) was so snarse it was a pleasure to fly onwards to my final destination from Boston in the comfort of USAir economy class. The steak that was served seemed as old as the aircraft. There were none of the individnal video sets that I might have anjoyed in British Air-

(my round-trip ticket to Europe

sleeper seats provided by Continental This dispiriting experience was yet another example of the consequences of airline alliances, a sign that airlines often nnt the short-term interests of their shareholders ahead of

ways business class, or the

those of their customers. Once PanAm flight 1 could jet you around the globe. But today no airline has global cov-erage to all the destinations that people want to go to in

ever greater numbers. To be competitive, however, airlines have to suggest to con-sumers that they offer global coverage. As a result, they are forging ever-deeper strategic alliances with each other such as those between Delta and its new European buddies. British Airways and American Airlines, or Northwest Airlines and KLM, the Dutch carrier.

It is all part of an obsession among airline bosses over market share - they all want more of it. Competition is exacting and it might be argued that there are too many companies now flying the "friendly skies". No airline believes it has enough of the global market and all fear they will be losers unless they swiftly secure alli-

For the customer, this can mean unpleasant surprises of the sort I experienced on my return flight from Europe. But it also raises questions ahout safety standards, particularly in the wake of the Valujet crasb in Florida.

The US Congress is about to hold bearings into airline safety, and experts are going on US television and radio programmes to warn people to fly only on airlines that the authorities have clearly declared as safe. But, what can passengers do if they buy a Northwest Airlines ticket and discover they are flying on a KLM aircraft that is not subject to Federal Aviation Authority controls?

The Dutch authorities that regulate KLM may be better regulators than the Americans. But can the same be said for most other national authorities which licence the airlines increasingly joining the widen-ing nets of global airline alli-

The answer is almost certainly no. The reality is that in the race for global market The airlines are

willing to take risks with customer standards in the race for global market share to fend off potential competitors

share to fend off potential competitors and secure the tremendous profits that globalisation can bring, the airlines are willing to take risks with customer

standards. They are willing to surprise passengers sbout the airline they will travel on the equipment they will fly on, the quality of in-flight service they will receive and the standard of ground safety/maintenance service that the airplanes may be subject to.

To overcome this problem the world's leading and streegulated airlines would have to insist thet their partners all met vary high international standards. The tests would range from the basics of safety to the extremes of husines class and first-class luxury Meeting auch tests, at least in the medium term, would probably be seen as too expensive for the airlines in a hurry to offer the best global networks of alliance-driven international

The competitive pressures of globalisation are mounting in almost all business sectors, forcing managements to consider trade-offs. Do they place sharebolder value above customer value? Do they assign lower priority to concern for their employees as they cut costs? And do they try to do an endrun around safety regulations just to make a few additional dollars?

To place shareholders above other interests is a short-term strategy that can only end badly. Delta, hy tricking me into a Sabena flight, is no longer my airline of preference and I have more choices today than ever.

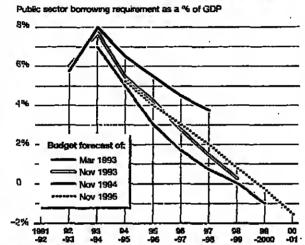
If the partner of a leading world airline crashes, the dam-age to the latter's reputation will be enormous - and the costs to it very high. .

The strategists of new global alliances, in all business sec-tors, should start taking greater account of such consid

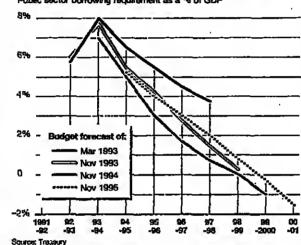
The author is president of Vogl.

Communications of Washington

DC, o strategic management



#### How the Treasury forecast the fiscal deficit



#### LETTERS TO THE EDITOR.

Number One Southwark Bridge, London SE1 9HL Letters may be faxed to +44 171-873 5938 to are keen to encourage letters from readers around the world to fine i e mail letters editoren com Translation máy be available for letters written in the main international languages.

#### Remember EU's fourth freedom

From Mr David Martin MEP. Sir, In his Personal View (July 2), Onno Ruding rightly argues that the European Union has "... in most respects realised the goal of the single internal market with its attendant free movement of goods, services

and capital - as envisioned hy the Maastricht Treaty in 1992". I do not know if it was intentional, hnt it is pertinent that the former finance minister of the Netherlands missed out the fourth of the four famous freedoms - the freedom of movement for labour, or citizens, within the

single internal market. The single market will never work properly unless we have the freedom of movement for

Sterling exit

labour to work within the European Union. The European Court of Justice last week came to the aid of teachers, musicians and other European Union citizens trying to get work within the Union.

in three judgments it ruled that Belgium, Greece and Luxembourg broke European laws by preventing non-nationals from holding public sector jobs in fields ranging from education to post and telecommunications.

Although the European Union's founding treaties guarantee free movement of workers, they also provide an exemption for public sector workers. However, recent rulings of the Court of Justice have meant only jobs involved

in making public policy or safeguarding the interests of the state can be reserved for nationals. Teachers, people working in public utilities or healthcare and transport should not be included.

Freedom of movement for workers must be a basic right under European Union law and is just as important as freedom of movement for goods, services and capital. Last. week's ruling is a significant step towards freedom for EU citizens to work in other member states.

David Martin, vice-president, European parliament, 4 Lothian Street, Dalkeith, Midlothian, UK

controls over their officials.

Maff, as run by these unelected officials, now seems

Having struck a mortal blow to

to be answerable to nobody.

bringing our beef industry to its knees. While it ponders its

justify its existence with more mad schemes. Blood tests on

sheep for diseases not recorded

year is one of the latest. About

as sensible as testing all dogs

for rabies, or paying farmers to

our fishing industry, it is

next target it attempts to

on these shores for many a

#### No need for new status

From Mr Jack Wigglesworth. Sir, Another problem: another instant solution. But the challenges facing member-run exchanges - such as the London Stock Exchange and the London international Financial Futures and Options. Exchange (Liffe) - would not be removed by turning us into plcs with a broader range of shareholders (Lex. July 1).

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On the contrary, an exchange can only be successful if it serves the investing public. An exchange's member firms can only make profits if they meet those same needs. So giving control to members allows swift responsiveness to the needs of the market. Being a plc with a different set of shareholders and interests could only be a distraction. Control by members is also more consistent with our regulatory role under the Financial Services Act 1986 - a role which we take extremely serionsly and where direct

member input is vital Liffe has experienced more than 40 per cent growth a year since 1982 to become the largest exchange of its kind outside Chicago - proof indeed of the ability of member run exchanges to act commercially and exploit market opportunities.

Jack Wigglesworth, -

chairman. London International Financial Futures and Options Exchange. Cannon Bridge. London EC4H 3XX UK

#### All in a name

From Ms Fiona M. Schneider, Sir, Having lived in Germany for seven years, it now looks as if the difficulties with my forename are at last set to end ("Deutscha Bank introduces Fiona", July 4). Regrettably, 1 fear, as I would rather be known as Viola, Fiola or Vecona than Frankfurt Inter

Fiona M. Schneider, Burgstrasse, 5, D30826 Garbsen, Germany

Bank Overnight Average.

1916-1996

Cantor Fitzgerald

New York , London , Tokyo , Paris , Los Angeles , Chicago , Boston , Dallas , San Francisco , Toronto

#### Time to end outdated farce

From Mr Charles Wyatt. Sir, Well played, Joe Rogaly. From Mr Louis de la Nouille. Sir, Philip Stephens ("A shadow of Itself", July 5) refers I read his pleas for the to "sterling's ejection" from the EU exchange rate destruction of the UK's onpleasant and inefficient nechanism. In this he is Ministry of Agriculture mistaken: sterling was never Fisheries and Food ("End of ejected from the ERM. the line for Maff", July 6/7) Should he have any doubts while watching Michael Atherton score his century – and I don't know which I

on this, he would do well to refer to his own recently published book Politics and the pound, where (on page 251) he gives a brief, but presumably accurate, account of the meeting where "the decision was taken to pull out of the ERM". The correct description of what happened, which should also clear up the confusion in his mind, would seem to be auto-ejection.

Louis de la Nouille, 12 Rue du Faubourg Poissonnière, Paris 75010, France

enjoyed more. For longer than most can remember. Maff has formed the third corner of a cosy triangle with factory farmers and agrochemical manufacturers to the detriment of the countryside and the housewife's purse.

gone without trace. Few had any knowledge of farming when coming to office, even fewer knew much more by the time they left, and virtually none exerted any significant

Ministers have come and

Let's hope the FT forms up behind Mr Rogaly to campaign for an end to this outdated farce. Charles Wyati, Hurst House, Wittersham, Kent TN30 7EL

## The reality of democracy for Russians

From Dr Marek Laskiewicz. Sir, The key point about the Russian presidential election is that it shows the high support for communists. This confirms what I have consistently said since June 1991 - unlike all the experts, who blow with the wind - and what I have explained in Russia and World War III (ISBN 1871771 02 1), namely that war (possibly

nuclear) may still occur. For Russia may react against an unsuccessful capitalist democracy and may support a revanchist neo-communist

dictator. So, while the Anglo-Saxons believe democracy is wonderful, what the Russians see is disorder, territorial disintegration, and poverty, albeit partly masked by aid.

And while the world believes that perestroika was a "liberal" reform, it was in fact a failed "hardline communist"

The experts were and are wrong. No-one should be complacent

Marek Laskiewicz, 39 Queen Elizabeth's Walk, London N16 5UG, UK

#### **COMMENT & ANALYSIS**

Annual % change

Algeria: struggle for stability

#### FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700 Tuesday July 9 1996

# The state and the volunteers

Britain has a long and laudable indition of voluntary effort. In culture and practice it is midway between the US and continental western Europe: the state plays a significant social role, but has not crowded out charities and volunteers. We from it. More than 20m people do voluntary work, everything from scout clubs to lifeboat stations, and the charitable realm extends to health and education services regarded as core govern-

mental responsibilities elsewhere. In typically British fashion the complex policy issues raised by the voluntary sector have been left largely to custom, practice, a few quangos and the odd government steer. Recent steers have been significant, notably the creation of the National Lottery, providing massive semi-public funding for sports and welfare

Yesterday's report of the commission on the future of the voluntary sector is therefore timely. Its recommendations are radical, but mostly go with the grain of developments in the voluntary sector and are to be welcomed. The three central issues are the legal framework for charities; the definition of activities meriting charitable status; and the management structures of voluntary organisations.

On the first two, the commission proposes to replace the arcane legal framework with a "single, clear and flexible" legal category and a set of associated reforms. This would tackle obvious anomalies, notably the inadequate official oversight provided

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for the charitable sector. The commission rightly calls for the charity commissioners – a regulatory and judicial body – to be supplemented by a Voluntary Sector Commissioner to keep charity law under review and a new appeal tribunal empowered to review the commissioners' judicial decisions.

The commission is also right to highlight the unsatisfactory tax status of charities. Tax exemption should mean just that, yet the current rules result in many charities paying large VAT and local rates bills. On organisation, there is a strong case for allowing charities to establish themselves on a Companies Act model, as suggested by the commission. Because charities depend on volunteers and donations, that is no reason for them to be managed amateurishly.

be managed amateurishly.

More problematic - but critical

is the definition of charitable
status. Here the commission is disappointingly cautious. It recommends "a review" to establish "a
mechanism to ensure the class of
organisations able to claim charitable status keeps up with social

Alas, new mechanisms will not resolve the controversial issues at stake. Why should Eton College but not sports clubs be granted charitable status? Why Oxfam but not Amnesty international? Parliament needs to debate from first principles the desirable "public goods" it wishes charities to advance. It cannot continue leaving such important, if vexed, questions to a remote quango and 19th

# No cure for Aids

This week's international Aids conference in Vancouver is more optimistic in tone than any such occasion since the mid-1980s. Recent research has given hope that drug combinations will be able to keep symptoms of the disease under control almost indeficient.

But the new optimism must not obscure the fact that, on a global hasis, Aids remains one of the world's most serious public health issues. HIV the virus that causes Aids, has already killed several million people – mainly in sub-Saharan Africa – and the UN programme on HIV/Aids says 22m

Even in industrialised countries where most victims have been homosexual men and illegal drug users, complacency is not justified. Contrary to the dire predictions of some experts 10 years ago, no Aids epidemic has yet swept through the heterosexual population of the western world — but epidemiologists warn that the spread of HIV infection via umprotected sexual intercourse is still gathering momentum.

For the poorer regions of Africa, Asia and Latin America, where there is already a devastating Aids epidemic, the ancouraging news threat triple cocktail of HIV drugs seems to stop the virus replicating is almost irrelevant. The cost of such treatment – up to \$13,000 a year for each patient – will be a daunting burden for healthcare systems in the west; in the

third world it is unthinkable.

The subsidy required to pay for large-scale treatment of Aids in the third world with western drugs would run to many billions of dollars a year - and would therefore be prohibitive, whether it came from governments or pharmaceutical companies. In any case, administration of the new drugs requires a sophisticated medical intrastructure that is sim-

ply not present in many regions.
Eventually, some time in the next century, the whole world will benefit directly from the scientific progress now being made in western laboratories. For the time being, however, efforts to halt the global spread of Aids will have to

remain low-tech and low-cost.

That means more vigorous promotion of preventive measures such as the use of condoms. Evidence reported in Vanconver shows that safe-sex messages can get through. In Thailand, for example, the number of men visiting prostinutes has fallen by half and HIV infections are running at one quarter of the 1990 rate.

At the same time, the west must give more generous support to programmes for treating the infections that accompany Aids with cheap off-patent drugs. In particular, tuberculosis and Aids go hand in hand, and nothing would do more to reduce Aids mortality over the next five years than a successful campaign to reduce tuberculosis deaths through properly administered antibiotics.

# OAU dilemma

Two years after genocide in Rwanda, neighbouring Burundi is falling into a similar nightmare of ethnically motivated slaughter. In 1994, the international community was blamed for a belated response that failed to avert the Rwandan killings. Having intervened, the outside world could offer no long-term solution. This time, the western powers are staying on the sidelines in Burundi, refusing to commit troops to a country where they have little at stake.

The burden of responsibility for bringing peace therefore rests on the shoulders of the African leaders currently attending the Organisation of African Unity summit in Cameroon. But they are in a dilemma, if Africa fails to tackle the crisis in Burundi, prospects for ending conflicts elsewhere in Africa are bleak indeed. But an ill-timed, poorly supported and inadequately prepared intervention could do more harm than good, conceivably precipitating the anarchy it is trying to avert, and even turning a national conflict into a regional war.

flict into a regional war.

The situations in Rwanda and Burundi are confusingly comparable, yet different. In the former, newly im Tutsis were systematically killed by a Hutu majority determined not to share power with the Tutsi minority. In Burundi, the Tutsi minority is in control of the army and civil service and refuses to share power with the Hutu majority.

Once again, the world is con-

fronted with a tragedy it seems incapable of averting. The death toll in Burundi is running at 1,000 a month. Tha flood of refugees from both countries threatens to destabilise the region. After many months of negotiations led by former Tanzanian president Julius Nyerere, the basis of a peace plan has taken shape. Regional leaders have proposed an African force comprising troops from Uganda, Tanzania and Ethiopia which would try to ston the killings.

would try to stop the killings.

The response from both Tutsi government and Hutu rebels since then leaves it far from clear that such a force would be accepted. Instead of keeping the peace between the two sides, it might have to be peace-making, or peace-enforcing. That would require a much larger number of troops, considerable financial resources and a least-term committeent.

and a long-term commitment.

There is some suspicion that the threat of international intervention is merely a ploy to force both sides to negotiate. The danger is that will not happen; and the OAU bluff will be called. If this African initiative is to succeed, it must be clear not only that both sides in Burundi welcome it. It must also win the support of President Mobutu Sese Seko of Zaire, where most Hutn guerrillas are based. Most important, its objectives

must be clearly defined.

Only if African leaders at the OAU summit present a more convincing plan should the scheme go

# A firm hand on democracy

Algeria faces an uphill struggle in its latest attempt to reshape its political system after the violence of recent years, writes Roula Khalaf

hen an Algerian opposition leader met President Liamine Zeroual recently and proposed that Algeria hold a "peace" conference, the president dismissed the idea. "They don't like to hear us speak of peace," explains the opposition leader, "because it assumes that what we have is a war."

Bolstered by his victory in presidential elections in November and

dential elections in November and confident that Islamist militants no longer pose a threat to his regime, Mr Zeroual has decided it is time for Algeria to move on from the crisis caused by the fighting of the past four years.

Pronouncing that the violence has become "residual", Mr Zeroual is attempting to reshape Algerian politics into a form that appears democratic while ensuring firm state control and continuing to exclude his Islamist opponents from the political process.

Algeria surprised the Arah world in 1989 with its decision to move from one-party rule to western-style multi-party democracy. More than 60 parties were established, an independent press flourished and economic liberalism began to take root. But it was a newly-formed Islamic party, the Islamic Salvation Front (FIS), that mesmerised Algerians by capitalising on their social and economic plight and on their disgust with the ruling National Liberation

When the FIS won the first round of general elections in December 1991 and looked as though it would control the national assembly, the army seized control of the country to put an end to the democratic

The Islamists then took up arms, sinking Algeria into a state of chaos and raising fears in western capitals of a radical Islamist takeover which would spill over into the rest of north Africa and send hordes of immigrants knocking on the doors of Europe. More than 40,000 people have been killed in the conflict in a country that is one of Europe's leading suppliers of natural gas.

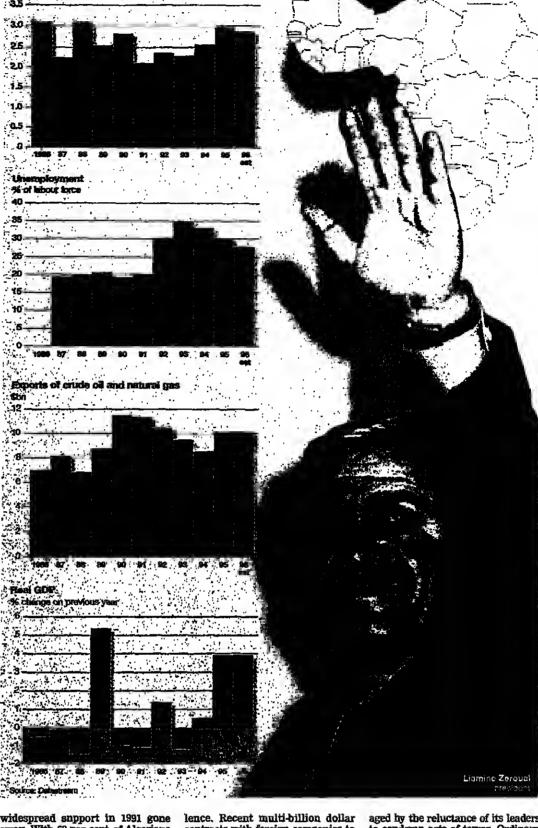
Now Mr Zeroual, a former army general, has declared that the country is ready for a fresh start, this time with much stricter rules of play. After a first round of talks with politicians and community leaders in April, he announced that Algeria would hold general and local elections in 1997. Before then, there would be a referendum on amending the Algerian constitution.

Voters would be asked to approve proposals to prevent parties from using Islam to further their political ends and to set up a second chamber of parliament, some of whose members would be appointed rather than elected. The introduction of a system of proportional representation would also minimise the risks of a single party winning control of the national assembly.

Mr Zeroual has called for a second "multilateral" dialogue with legal opposition parties on Monday, which the government says would be followed by a national conference on the future of the country. But even the Algerian regime's moderate opponents are critical of Mr Zeroual's approach. They say he is wrong to assume that the violence has largely been dealt with. Information is tightly controlled.

Information is tightly controlled, but there are still regular bomb explosions and attacks on civilians and members of the security forces. Incidents such as the killing of seven French monks in the spring have highlighted the dangers of life in Algeria.

Nor have the grievances that won the Islamic Salvation Front such



widespread support in 1991 gone away. With 60 per cent of Algerians aged under 25 and with the population growing at more than 2 per cent a year, the real challenge facing Algeria is found on every street corner.

They call them the "haittists" the peopla who lean against city
walls (haitt). These are the disillusioned youths brought up in a falled
education system and ruled for
decades by a corrupt government
that squandered the country's
resources. Unemployment among
the young is estimated at 65 per

In an economy still controlled by a bloated state sector, hopes for revival rest on foreign investment, but potential investors are still being frightened away by the violence. Recent multi-billion dollar contracts with foreign companies to exploit Algeria's oil and gas reserves in the desert south (where projects are largely safe from Islamist attacks) provide funds for the government to pay its bills but cre-

ate little employment.
Several opposition leaders say that the best way to reduce the violence is to include at least some FIS leaders in the political process. But discussions between the FIS and the government have repeatedly collapsed in the past four years, and the government has now decided to exclude them completely.

The regime has succeeded in splintering the FIS leadership, by jailing some leaders and forbidding others to speak in public. The party's reputation has also been damaged by the reluctance of its leaders to condemn acts of terror. Ordinary peopla have been caught between the Islamist violence and brutal government repression.

The Islamic Salvation Army, the

armed wing of the FIS, has been fighting the security forces on one front and the more radical Armed Islamic Group on the other.

In a sign of a change in strategy, FIS leaders in exile have made conciliatory statements towards the regime in recent months and have condemned specific terrorist acts targetting civilians. Released FIS leaders in Algiers, meanwhile, have

are ready to try convincing armed groups to give up their military struggle.

But the Algerian government

been telling other parties that they

says the FIS's change of heart is too late for the organisation to be included in negotiations. Officials say former FIS supporters should find a voice within other legal parties with Islamist leanings, such as Hamas, the party whose candidate in November's presidential elections won 25 per cent of the vote.

tions won 25 per cent of the vote.

If Mr Zeroual's proposals on removing Islam from politics are adopted. Hamas will simply strip any mention of Islam from its name and adjust its political programmes to profess to the per rules.

to conform to the new rules.

Mr Zeroual claims that he wants the moderate Islamists and other parties to act as an effective alternative to the FIS and, in time, to convince the young men who took up arms of the futility of their struggle. But this will require the president - and the army which still wields the real power behind the scenes - to abandon their monopoly of political power. Otherwise the opposition parties will be seen merely as decorations that help to legitimise a totalitariau regime.

r Ahmed Attaf,
Algeria's foreign
minister, insists
that the aim of Mr
Zeroual's initiatives
is to strengthen the democratic process, but many Algerians remain
sceptical about the president's
intentions.

Some government actions sit oddly with professed democratic aims. For example, the continued muzzling of the independent press the latest example of which was last week's suspension of French-language daily La Tribune - contributes to suspicion.

Opposition parties will have the chance to test Mr Zeroual's true intentions in the talks starting next week. As requested by Mr Zeroual, the parties have provided written comments on his proposals on amending the constitution.

But they admit that Mr Zeroual is holding the strongest cards, "We are facing a dilemma," says one opposition leader. "To take part in this process is to contribute to our own suicide, and not taking part will also sufforate us."

will also suffocate us."

Mr Zeroual will do all in his power to create an institutional framework that gives his political allies – including at least part of the National Liberation Front – an advantage in the general elections, especially since he has no party of his own.

But if Mr Zeroual has any hope of one day returning Algeria to stability, diplomats say, he must also allow the opposition enough room to manoeuvre without government interference.

interference.

"In a society that is violently distrustful, in which memories of blood are too fresh, the divisions are too great to allow for any agreement among all sides that is based on trust," says a Western diplomat. "This is why Mr Zeroual has to accept enough changes in his proposals so that opposition parties are given enough guarantees to take part in a process without having to trust the authorities."

Algeria has passed the point where it can forever repress its Islamic militants with the sort of authoritarian (but internationally tolerated) system of government found in Egypt and Tunisla.

The violence has touched too many byes and the culture of confrontation runs too deep. If the regime tries to take the route of repression, a former government official says, "the only question then becomes, 'When will it all explode again?".

# OBSERVER

# Murdoch's alien market

To the of the great advantages of being a middle media megal is the creative diportently to plug different parts of your empire into one sticities.

Thus eagle eved American channes goes, laughing up the new sampeer blockbuster, ladependence Dog, will have noticed the ubiquity of Rupert Munioch.

Twentieth Centery Pur, his company produced the movie whenever it beatures TV news clips of the Allen Intrace, the

whenever it leadings IV news clies of the alien to nace, the newscisters are not from CNN, ABC, CBS or MRC, the major US networks, but from Sky Television, throatly news, Par, both Murdoch, suitablisher.

The from suspicious manti-roen

Standarder.
The truly suspicious neight even see the conservative Murdock political agends at work.
Atthough the party affiliation of the heroic US president who takes to the sides to lead the successful serial counter affact against the about the second he is assumed to be a Republicion if for no other reason that one of the black stars in the film confishes to having puted for the other

candidate.

But Murdoch left the aliens, thenselves severely akine, either hecanse they were too ugly or perhaps because they were telepithic and therefore had no

need for the mass media Murdoch, no friend of Washington, even when it is run by Republicans, might also be disappointed to hear that the DC audience did not cheer when the White House and Congress were incinerated, as reportedly has happened elsewhere in the country.

Onigunited

Volker Rübe's heart must have missed a beat recently when Chancallor Helmut Kokl ruffled his defence minister's beir before a

cabinet meeting.

It was apparently designed to cheer up poor Volker, who has been having a bed time of it recently because his defence budget is being sniped at by Theo Walgel, Bonn's hard-nosed finance monitater who is looking for more savings.

But Kohl rarely dispenses

affection so publicly - and yesterday it became apparent that nothing liad really changed when Rule's defence budget received another mauling from Walgel.

In order to make the humiliation a truch more palatable, Kohl-has, however, assured his defence minister that his budget will rise gradually from next year's DM#6.5bn to DM#8.5bn in 2000.

minister that his budget will rise gradually from next year's Diseason to Diseason in 2000.

That such assurances are worth less than the paper they are written on - if indeed they have been put into writing at all - must be abundantly clear to Ruse.

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After all, back in the halcyon flays of November 1994, just after Kohl had won his fourth election, he told Rühe that he would have DM48.5ha to spend every year on the Bundeswehr, together with fancy weapons projects designed to cement the famed Franco-German axis.

Funny, then, that Ribe should have just DM46.6m to spend next year.

Hub love?

If must be the seven year rich—and then some KLM last week made renewed overtures to Northwest Artines simed at ending a row over who is boss of the menage first created in 1989. But as the Dufch suitor had already called in the lawyers, the response from its Midwestern belle was not much more than a shrug of the shoulders.

More seriously, the American has taken to casting aspersions on the home background of the persistent European. Passengers bound for Amsterdam are being handed Northwest leafiets which paint the city in a distinctly unflattering light.

"Keep handbags close to the

body. Avoid photographing the red-light district. Drugs are widely available," it intones, advising women "against walking around the red-light district day or night, even if accompanied."

exhortation is "worded more strongly than it needs to be".

The leaflet is being handed on a test besis to those departing from its superior been Minneapolic St.

test besite is being harmed on a test besit to those departing from its squeaky-clean Minneapolis-St Paul lub on flights it code-shares with KLM.

"I dare say if we did one for New York it would probably be quite a

To dare say if we did one for New York it would probably be quite a bit longer," acknowledges Northwest. But the fact that KLM is then referred to as the "eastwhile partner" kinda says it all.

Light relief

If only all German visitors

If only all German visitors to the UK could be briefed by Barbara Schmitz, a 10-year habitude of London on behalf of publishing house Burda.

In an article written for an internal newsletter a couple of years ago — which is still regarded as essential reading for staff due to land in Britain — Schmitz advises learning four good short jokes by heart. "like a manira"

heart, "like a mantra".

The material should not be anti-women, anti-foreigner or anti-British. A joke that makes fun of the Germans, however, will go

down a treat.
"In their heart of hearts, Britons believe the old cliche that Germans have absolutely no sense of humon and only seldom laugh. It is worth overcoming this

prejudice."

Ach so. The British joke is no laughing matter?

# Tinancial Times 100 years ago

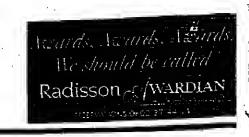
New German Cable Company

Cologne, 8th July. A new cable company has just been formed here, under the title of the Deutsche Seetelegraphen Gesellschaft (German Submarine Cable Company). The primary object of the company is to lay a cable between Germany and Spain, and eventually to extend it to the United States. The present share capital amounts to 3,560,000 marks. Reuter.

50 years ago
Bank to be Nationalised

"The Netherlands Bank will be nationalised." Dr Louis J.M. Beel, the new Dutch Premier, told the Lower Chamber of the Dutch Parliament yesterday in his policy statement. Certain Dutch industries would also be nationalised if investigations showed this to be desirable. Dr Beel added, however, that the Government took the view that Government control would gradually have to give place to private enterprise and bodies vested with special power. Some Clients Leave The annual report of the

The annual report of the recently nationalised Bank of New Zealand stated that because of considerable opposition to nationalisation throughout the country, it was inevitable that the bank would lose a certain amount of business.



US carmaker seeks to take on small-car market

# **GM** names six dealers to sell Saturn in Japan

By Haig Simonlan in London

Saturn, the successful US carmaker established by General Motors in the 1980s to meet the challenge of low-cost Asian competition, turned the tables on its foreign rivals yesterday by appointing its first six distributors in Japan.

The move marks the culmination of a strategy to develop Saturn sales abroad and demonstrate that US-built small vehicles can compete on price and quality with Japanese products in their home market. The Saturn models will be the

first right-band-drive GM cars sold in Japan. GM said they would be available in 10 to 15 showrooms wben sales start early next year, and it hoped to recruit more dealers to increase its natwork by the launch date. "We would hope to bave

between 15 and 20 stores operating during the first balf of 1997." said Mr Don Hudler, Saturn's

Saturn's Japanese subsidiary

Bonn plans

lin. However, the cost of service

rise to DM89.2bn from DM86bn.

in the context of slow real

growth of 0.75 per cent this year

with a pick up expected in the second half. Growth of between

2 and 2.5 per cent is expected in

The DM56,5bn of net borrowing

projected for 1997 will be about

DM7bn higher than anticipated a

year ago, According to the draft,

the federal borrowing require-

ment will not fall below DM50bn

until 2000, when it should total

Airbus to be

one company

panies are given manufacturing

work regardless of their efficlency or production costs. Aérospatiale and Dasa each own

37.9 per cent, BAe has 20 per cent and Casa 4.2 per

Yesterday's decision by the

Airbus supervisory board follows

a report by a committee headed by Mr Edzard Renter, former chairman of Daimler-Benz.

The supervisory board, also chaired by Mr Renter, said it

expected the partner companies

understanding by the end of the

year. A decision on the precise form the company would take

Continued from Page 1

succeeding years.

ing the federal debt is also set to

Mr Waigel's budget will be set

2.5% cuts

Continued from Page 1

said it was in talks with more than 30 potential companies and expected several to sign before the end of this year.

"We are convinced the high quality of Saturn cars, combined with friendly customer treatment and service st our Saturn retailers, will make a difference even for very discerning Japanese consumers," said Mr Keith Wicks, general director of Saturn Japan. Significantly, all but one of its first six dealer groups are independent companies. Only one, Nagoya Daihatsu, is affiliated with a Japanese carmaker, which bolds a 30 per cent stake.

Another, Yanase, is a long-standing distributor of other GM vehicles in Japan This year Toyota started selling GM's Cavalier sedan under its own name but sales have been disappointing with only 5,154 reg-istrations in the first six months against a 1996 target of 20,000

The naming of the dealers follows a long-running campaign by Saturn to penetrate the Japanese apart from Canada, in 1993 to develop its logistics and gain experience in selling to east Asia. Mr Hudler said the company

believed the time was now right to enter Japan, as consumer tastes were changing and motorists were looking for more choice. Sales of foreign cars in Japan bave risen sharply in recent months. However, US exports have ganerally failed to match the strong growth rates regis-

tered by European carmakers.

Although GM's exports soared by almost 150 per cent to 10,633 units in the first six months of this year, compared with the same period last year, Ford saw an increase of just 12.6 per cent to 8,125 for the period, while Chrysler sales declined by 8.2 per cent to 6,991. These mixed fortunes have cast strong doubts on whether the US Big Three will manage to meet their targets of exporting more than 100,000 vehicles each to Japan by the end

# **Turkey confirms** Erbakan as first Islamist premier

By John Barham in Ankara

Turkey's parliament yesterday confirmed in office the country's first Islamist prime minister but not before one deputy threw a punch during voting after a short

but rowdy debate. The coalition between Mr Necmettin Erbakan, leader of the Islamic party Refah, and the centre-right True Path party of for-mer prime minister Mrs Tansu Ciller was approved by 13 votes in the 550-member parliament. Voting was interrupted briefly wheo Mr Emre Gönensay, a for-mer foreign minister, was punched by a True Path party colleague for voting against the

After the vote Mr Erbakan said: "I believe there will be a work day and night with the spirit of worship. Our citizens will be bappy they have been saved from chaos. God willing, this government will work for a

Mrs Ciller defended her controversial decision to support the first Islamic premier in the 73year history of the Turkish republic. "We bave chosen the difficult but correct path," she said adding that there had been a choice between deadlock and

long time."

'democratic opening". Yesterday's vote follows a period of political confusion since Mrs Ciller's coalition government collapsed in September. Inconclusive general elections were held

in December and since then the country has been run by a succession of caretaker prime ministers and a shortlived conservative coalition that fell in June.

Few political analysts believe Mr Erbakan's government will be long lasting. Mr Hasan Cemal, senior political columnist on the pro-Ciller newspaper Sabab, pre-dicted it would last until spring and would carry out "a populist cycle [of policies]". He expects Mr Erbakan will call elections early next year in the hope of winning

a majority.

"Refah's primary [objective] is
to show people it was possible for
an Islamist to become prime minister," Mr Cemal said. "A kind of taboo has been broken."

Some analysts had expected the secularist military to prevent tors believe Refah will avoid any direct challenge to the secular establishment, such as shifting the country's traditionally prowestern foreign policy. They expect the Islamists to install supporters in government departments and gradually move towards pro-Islamic policies

But fears are growing that Mr Erbakan may adopt a more aggressive stance towards Greece, Turkey's traditional rival, to bolster his popularity. Some analysts expected Mrs Ciller's alliance with Refah

would split her party, but only seven MPs have quit True Path and 14 others refused to back her in yesterday'a vote.

FT WEATHER GUIDE

#### French defence ministry admits to wiretaps

By David Owen in Paris

in France yesterday after the defence ministry admitted ordertog wiretaps on two senior aides to Mr François Léotard, the former defence minister and curreut president of the UDF, the junior partner in France's roling

In a move that threatened to put relations in the coalition under severe strain, the ministry said the "interceptions" were for unspecified "national security"

It said the first tap began on July 11 1995 - about two months after the Gaullist Mr Jacques Chirac won the presidency. Both

taps ended in October. The admission fullnwed reports in Le Monde, the leftleaning dally newspaper, that the telephones of several mem-bers of Mr Léotard's entourage were tapped by the Direction Générala de la Sécurité Extérieure, France'a overseas espio-

nage service. The newspaper identified three of the officials who were subject to wiretaps. It speculated that the operation might have been linked to suspicions that money from arms sales to Saudi Arabia could have been channelled to supporters of Mr Edouard Balla-

dor, the former prime minister. Mr Balladur campaigned unsuccessfully for the presidency in the election won by Mr Chirac. Mr Léotard was a seninr organiser of Mr Balladur's campaign. He succeeded Mr Valéry Giscard d'Estaing, the former president, as UDF head in April, fending off a challenge from Mr Alain Madelin, the former finance minister.

Mr Léotard last nigbt demanded a public explanation for the wiretaps from Mr Alain Juppé, the French prime minister. He described the move as "as astonishing as it is unjust for military men or senior civil servants whn have served their country with honour'

He called on the prime minister to acknowledge that "no reproach or fault with a bearing on national security bad been and that no political reasons could be used to justify "prac-tices that dn nn bonour to our

democracy". Mr Juppe's office defended the wiretappings hat refused to explain why they were carried out. It said the action had been legal, strictly for national security reasons and approved by an independent national commis-

Yesterday's disclosures gave a fresh twist to a series of scandals over alleged illegal political funding, including of Mr Chi-

rac'a Gaullist RPR party.
Mr Chirac was yesterday in
Qatar, having visited Saudi Arabia at the weekend.

# THE LEX COLUMN Reaching for the Sky

By finally linking up with Bavarian media mogul Mr Leo Kirch, Mr Rupert Murdoch's RSkyB has won an impor-tant prize together, the two men look formidably positioned for future dominance of Germany's television screens. For a start, Mr Kirch's plans for digital pay-TV in Germany are already well-advanced, with 17 channels due to be launched later this month. His only rival - a bedraggled alliance of mann, Canal Plus and Havas is well behind. For another, as a part-ner the buccaneering Mr Kirch looks much better suited to Mr Murdoch'a style than stodgy Bertelsmann.

Moreover, Mr Murdoch seems to have cut a remarkable deal. BSkvR will get a 49 per cent equity stake in the Kirch venture, in marked contrast to Kirch's recent deal with Viacom in which no equity was exchanged. And it is having to pay nothing for the

Of course, BSkyB will have to bear its share of the venture's start-up losses. But even if this makes a nasty dent in BSkyB's juicy cashflows over the next few years, the long-term pros-pects look entiring. Germany is, after all, potentially the largest pay-TV market in Europe.

The big question is whether Mr Kirch and Mr Murdoch are likely to face any competition at all. Bertels-mann is unlikely to give up altogether. But its alliance still looks in deep disarray; yesterday's wistful statement that Bertelsmann "hopes for a return to greater mutual confidence" with its partner Canal Plus is hardly a promising sign. Of course, there is no guaran-tee that the Murdoch/Kirch partnership will not prove similarly filmsy. But Bertelsmann would be unwise to count on it.

#### Airbus

Setting up Airbus as a proper com-pany is a big step towards getting Europe's sluggish four-nation consortium airborne. In the face of increasing competition from Boeing and McDonnell Douglas of the US, Airbus desperately needs to improve its competitiveness, Mr Jean Pierson, its managing director, has publicly stated the need to cut costs by 20 per cent over the next few years. Competitive tendering and central buying of parts -impossible under the current legal structure - would get him a long way towards his goal.

Agreeing the principle is one thing. Thrashing out the details will be much more difficult - which is why it may take until 1999. The most straightforward solution would be to hand Airbus the manufacturing facilities of its



four current shareholders. The snag is that British Aerospace's factories are efficient and profitable, whereas those of Aerospatiale and Daimler-Benz Aerospace are not.

A proper valuation would therefore leave BAe with a much bigger stake in the new company than its current 20 per cent. That would be difficult for the Germans and French to swallow politically.

A more elegant solution might be to construct Airbus as a sophisticated design house. It could then contract out work to the lowest-cost operators. be they shareholders or not. In the nger term, Asian manufacturers probably have an unbeatable cost advantage over Europeans, so it may make sense to bring them into new projects, like the 550-seat "super jumbo". At the very least, a more inde-pendent Airbus should be able to think such commercially-minded

#### Grand Metropolitan

Grand Metropolitan's emergence as a potential bid victim, given the apparent interest of its largest competitor Guinness, is ironic. Under its trigger-happy former chairman Lord Shep-pard, GrandMet would have been tipped as far more likely to bid for Guinness than vice versa.

Indeed, GrandMet would look better placed to gain the upper-hand in any contest. It has a better record on takeovers; it has the advantage of a fast-growing food business; it is further ahead in restructuring its spirits bustness; and it could achieve greater cost savings as a percentage of the cost of the bid.

Nonetheless, investors should not take the leaked report on a GrandMet bid as evidence that takeover activity

is coming to the sector. The report \$\frac{1}{5}\$ may demonstrate possible cost savings \$\frac{1}{5}\$ from spirits mergers, but these savings are insufficient to cover any bid premiums. This applies even to Allied Domecq, the weakling of the big

four global spirits groups.
Of course, it is possible that Allied's new chairman could broach the subject of a friendly merger, but the attitude of its competitors ser us to be that it is more profitable to beat it than eat it. They have been proven

right so far. Corporate activity may come to the sector, but it is likely to be more sub-dued. Joint venture distribution deals are one way to extract some merger benefits without the merger. Grand-Met is under little pressure to pursue such deals, as it starts to reap the benefits of restructuring and increased marketing expenditure. Guinness is clearly somewhat hungrier.

#### **Tomkins**

Tomkins may no longer be fashionable, but it is never less than solid. Earnings growth of 7 per cent in a year when an extended US winter knocked £200m off lawnmower sales is no mean feat. Healthy cash generation underpinned a 15 per cent dividend increase at a time when Hanson and BTR are considering cuts.

Looking forward, the group has

Gates to get its teeth into. As with most family run companies, there is huge scope to improve returns: Gates' operating margin was only 4.3 per cent last year. Tomkins also believes it can extract £250m of working capital. A: Ranks Hovis McDougall, bought in 1992, reorganisation costing £90m and subsequent investment have been financed with its own cash. Moreover, Gates adds a slice of growth to Tomkins' otherwise mature portfolio.

Compound turnover growth at Gates has been more than 8 per cent for the past three years and there are opportunities to sell more of its rollber belts and hoses in Asia and Latite America. In the US, the group should take mar-ket share as carmakers convert from metal belts to rubber ones.

The shares deserve a market aver, age rating, which suggests a 10 pe cent improvement over the current price. But the management has made clear that a sharper focus, which could include disposals and a share buy ck, remains low on the agenda. I is difficult to see the shares fizzin while Tomkins remains an unreper tant conglomerate.

> Additional Lex comment on Hanson, Page 20

#### **Daimler-Benz Capital** (Luxembourg) AG

#### DM1,200,000,000

4.125% Deutsche Mark Bearer Notes of 1996/2003 with Appertaining Warrants N.E.W.S. ("Notes with Equity Warrant Securities")

unconditionally and irrevocably guaranteed by

Daimler-Benz Aktiengesellschaft

exerciseable into shares of

Daimler-Benz Aktiengesellschaft

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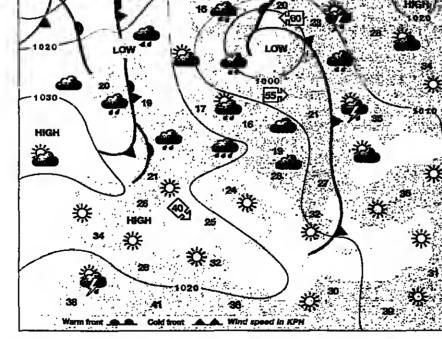
#### would be reached by 1999. **新教育 经经济 Europe today** Cool air will move across the Benelux depression over the Baltic Sea. As a result, temperatures will remain low over northern France, the Benelux and Germany, Central France will have rain. The Mediterranean will be mainly sunny and dry. Temperatures in southern Spain, Greece and Turkey will exceed 35C. A cold front over eastern

#### rain and winds will reach 60 kph. Five-day forecast

Temperatures over central Europe are expected to rise in the second part of the week, but the Brush Isles and Scandinavia will remain unsettled with cloud and rain, Sweden and Finland will have persistent rain over the next few days. Spain and Greece will continue warm but thunder showers are likely. Italy will continue cool for most of the week but temperatures will rise later in the week

Europe will be preceded by thunderstorms

Southern Sweden and Finland will have



#### **TODAY'S TEMPERATURES**

cloudy drzzi shower thund shower sair shower (air cloudy rain sun Algiers
Amsterd
Athens
Atlanta
B. Aires
8, ham
Bangkol
Barcelor

We can't change the weather. But we can always take you where you want to go. Lufthansa

Caracas Carditt Casablar Chicago Cologne Deter Dalles Delhi Dubeli Dublin Dublin shower drzzi sun drzzi Majorca Maric Marchest Marchest Marchest Medicourn Medicourn Millan Millan Munich Napies Nassau New York Nice Nicosla Osio Istanbul Jakarta Jersey Karachi Kuwait L. Angeles Las Paknas Lima Lisbon London Lucbourg